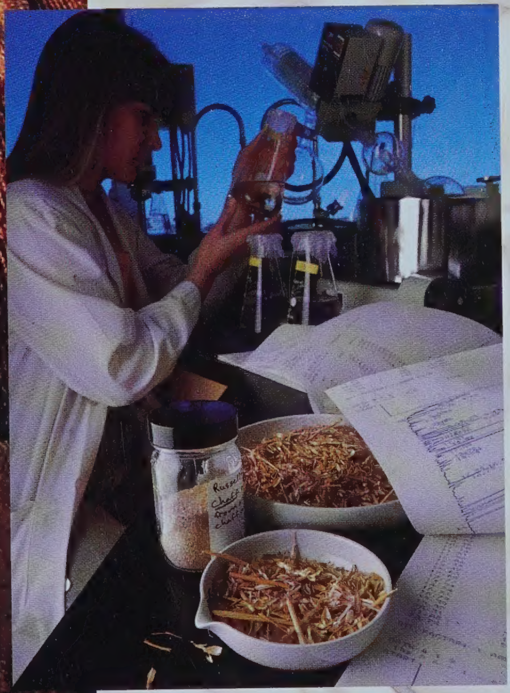
CEAPRO INC.



ANNUAL REPORT 1996

Ceapro 1996 Annual Report
Message to Shareholders

The past year has been a dynamic period of growth, change and evolution for your Company. The strengths and resources of several of the Company's subsidiaries and affiliated companies have now been combined, culminating with the amalgamation of Ceapro Developments Inc. and Vexco Healthcare Inc. on January 1, 1997. A new management team and renewed board of directors were established during 1996 to oversee this process and this team is now moving forward to realize the potential synergies, efficiencies and opportunities created through the Company's growth and development. I am confident that our efforts have resulted in the creation of a strong and innovative enterprise positioned to take advantage of the growth potential associated with the introduction of the Company's new, natural oat-based products to the rapidly expanding worldwide life sciences market.

Ceapro's growth in the life sciences industry will be driven by its three product divisions: consumer health products and cosmetics, pharmaceuticals and functional foods. The numerous achievements of each of our product divisions are described in the Company's annual report. Several of these achievements are worth highlighting, in order to draw your attention to the excitement with which the management team is moving forward in 1997.

During 1996 the Company's oat fractionation plant in Saskatoon, Saskatchewan began producing oat extracts for initial introduction and field testing in a variety of products. This facility has enabled the Company to test numerous process improvements and to produce oat extracts for sale in certain product markets.

The Company's Ostar® oat extracts have been introduced in a wide variety of products through the consumer health products and cosmetics division, the Company's most established operating division. These products include eighteen different cosmetic product lines, including cosmetics made by Estee Lauder Inc. and skin creams and lotions made by Chesebrough Ponds USA Co., as well as soaps, shampoos, lotions, face powders, the powder in a line of medical examination gloves and the soothing extracts in a leading brand of baby wipes. Ostar® oat extracts are also the basis of the animal care products developed by the Company's consumer health products and cosmetics division. In June 1996, a five-year distribution agreement for "Dr. Redmond's Animal Cost Wash" which provides for total sales in excess of $15 million was signed with Daisen Sangyo Co., Ltd. of Osaka, Japan.

The Company's pharmaceutical division has a number of oat-based products in development, the most advanced of which is a diabetes screening product, known as the "DSP", intended to be used in connection with the early screening of Type II diabetes in humans. Preliminary results of the pivotal trial on the DSP that finished in December 1996 indicate that it provides significantly more accurate test results than the traditional oral glucose tolerance test in individuals with impaired glucose tolerance.

The functional foods division, the newest of the Company's three divisions, is working to position the Company to meet the anticipated growth in demand for natural, healthful products expected to result from demographic trends towards an older, more health conscious population and increased awareness and acceptance of the benefits of foods having specific health benefits. Several new products incorporating Ostar® oat-based extracts, including pasta, bread and a non-dairy dessert, are undergoing efficacy testing and market development.

Through these three product divisions, we are committed to innovative product development, a strong marketing program to develop loyalty to Ostar® oat-based extracts and successful licensing arrangements with leading manufacturers, distributors and retailers to bring the Company's products to market.

Management anticipates that the demand for the Company's products will soon warrant an increase in the Company's oat fractionation capacity and, ultimately, the construction of a new integrated fractionation plant which will incorporate the process improvements being tested in the existing facility, permit economies of scale and improve production efficiencies. Preliminary engineering studies have recently been completed on a proposed new integrated fractionation plant capable of processing approximately 50,000 tonnes of oat groats annually.

We are confident in Ceapro and its ability to realize on the opportunities presented by the Company's oat fractionation technology. Management and the board of directors are committed to building shareholder value through the success of your Company and I look forward to the future with optimism as Ceapro's presence in the international life sciences industry grows.

On behalf of management, the board of directors and our employees, I wish to express our thanks to our shareholders for their continued support.

Robert Binnendyk
President and Chief Executive Officer

Table of Contents

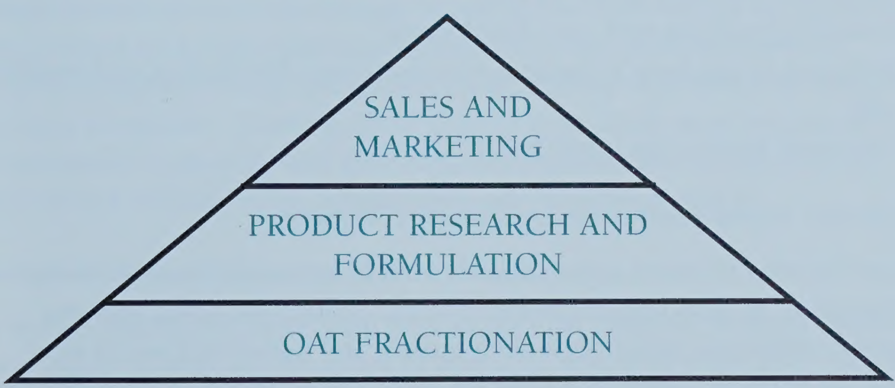
BUSINESS OF THE COMPANY

Overview

Ceapro discovers, develops and produces value-added natural health products derived from oats and other grains using a patented fractionation technology to which Ceapro has the exclusive rights. This patented fractionation technology, originally developed by Agriculture and Agri-Food Canada, enables the separation and purification of active extracts from oats and other grains for use in a variety of innovative formulations and finished products developed by Ceapro and other manufacturers. Ceapro's products are generally based on active oat extracts, the health benefits of which are the subject of independent efficacy testing, and are marketed under the Ostar® brand name. These products have application in the life sciences industry, including the consumer health products (primarily cosmetics and personal care, dental care, dermal care and animal care), pharmaceutical and functional food markets. Ceapro's expertise in agriculture and biotechnology is strengthened through collaborations with grain suppliers, government agencies, research institutions, and product manufacturers and distributors.

The following diagram illustrates Ceapro's primary operational activities and the external linkages formed by Ceapro to support its operations and bring its products to consumer markets.

CEAPRO INC.



EXTERNAL LINKAGES

Distribution Agreements
Licensing Agreements
Contract Product Manufacturing

Academic Collaborations
Contract Research Organizations
Expert Panels/Scientific Advisors

Agriculture and Agri-Food Canada
Alberta Wheat Pool Supply Agreement

There is a growing consumer demand for natural, more healthful products. The food industry, for example, is now catering to a better informed, aging and health-conscious consumer. The United States Food and Drug Administration (FDA) recently approved for the first time the use of a health claim relating to food, specifically oat bran. An example of such a claim is: "Soluble fiber from foods such as oat bran, as part of a diet low in saturated fat and cholesterol, may reduce the risk of heart disease." Oat extracts have demonstrated unique and desirable properties for use in consumer health products, pharmaceuticals and foods.

Ceapro operates a fractionation plant in Saskatoon, Saskatchewan which, in April 1996, commenced pre-commercial production of oat extracts for initial introduction and field testing in a variety of consumer health products. This facility was originally constructed to validate and optimize the fractionation process and to produce extracts for use in the cosmetics market. Ceapro is currently taking steps to enable this facility to produce limited quantities of food grade extracts for product development and efficacy testing purposes. This plant has enabled numerous process enhancements and the discovery of new oat extracts and is capable of processing up to 15,000 tonnes of oat groats per year, depending on the extracts produced. Over the past five months, the plant has processed an average of 171 tonnes of oat groats per month. Further testing on process modifications is being conducted to improve productivity, improve capacity utilization and enhance product quality.

Strategy

Ceapro's strategic objective is to be a leading global developer, producer and supplier of branded extracts for use in premium products in life sciences industry sectors. This business strategy will be focused on the use of the patented fractionation technology to extract and purify different types of grain extracts and the development of products which incorporate such extracts. Ceapro intends to achieve its strategic objective through:

- continuous improvement to the fractionation technology;
- innovative product development;
- branding products with the Ostar® name;
- licensing of products to leading manufacturers, distributors and retailers; and
- increased production capacity.

Continuous Improvement of the Fractionation Technology

Ceapro intends to invest approximately 20% of its annual research budget on fractionation process improvements to lower production costs, improve capacity utilization, enhance product quality, and isolate and purify new active oat extracts. These activities are being undertaken in part in collaboration with Agriculture and Agri-Food Canada. In addition, Ceapro intends to broaden the core oat fractionation technology to enable the separation and purification of extracts from other grains and plants. For example, Ceapro has exclusive rights to a recently issued patent for the extraction and use of immune stimulants found in quinoa. In order to protect the competitive advantage afforded by its core technology, Ceapro does not intend to sub-license the fractionation technology to third parties.

Innovative Product Development

It is Ceapro's strategy to continue to develop innovative formulations and finished products incorporating the various extracts produced through the oat fractionation process for use in the life sciences industry, including the consumer health products, pharmaceutical and functional food markets. Ceapro's new product development is conducted internally and through collaboration with customers who have identified a particular need for the health benefits conveyed by Ceapro's natural oat extracts. Ceapro also adds to its internal research and development resources through collaboration with academic institutions, contract research organizations, and expert panels/scientific advisors.

Branding Products with the Ostar® Name

Ceapro intends to associate the brand name Ostar® with all of its oat extracts and related products. Through strategic use of the Ostar® brand name and appropriate marketing programs, Ceapro will seek to create a brand name that crosses industry segments and capitalizes on public support and appreciation for the benefits of oat extracts. Ceapro is developing efficacy data for each use of the oat extracts. Both the promotion of a strong brand name and the development of efficacy data are intended to create value for distributors, licensees and retailers who either use the Company's products as ingredients or market finished products developed by or in association with the Company.

Ostar

Product Licensing

Ceapro intends to develop strategic licensing and distribution agreements with companies having established distribution and retail networks or integrated manufacturing, distribution and retailing capabilities to bring its products to market. This will allow Ceapro to focus on development of the fractionation technology and discovery, development and production of value-added natural health formulations and finished products.

Increased Production Capacity

As market opportunities develop for Ceapro's oat extracts, facilities must be put in place to respond efficiently to increased production demand. Ceapro is testing process modifications to improve productivity, enhance capacity utilization, and improve product quality. Successfully tested process improvements may be implemented at Ceapro's existing fractionation facility. In addition, if sufficient demand develops for its products at sufficient margins Ceapro intends to construct a new facility which will further increase capacity, permit economies of scale, and improve production efficiencies by enabling it to run fractionation processes in respect of Ostar® starch/protein, Ostar Arriveen® and Ostar® beta glucan simultaneously, which is not possible at the current facility. Preliminary engineering studies have been completed on a proposed new integrated fractionation plant capable of processing approximately 50,000 tonnes of oat groats annually.

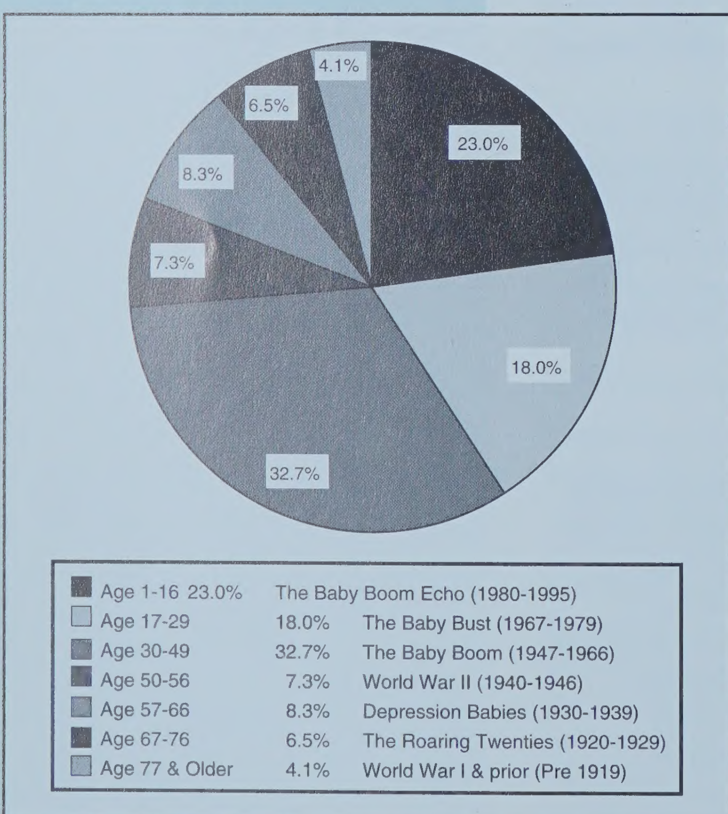
Industry Overview

The life sciences industry includes a broad range of market sectors including healthcare, agribusiness and nutrition. As depicted in the following table, each of these broad sectors can be broken down into more finite market sectors, each focusing on a separate human or animal health-related requirement.

Business Sectors Included in the Life Sciences Industry

Healthcare	Agribusiness	Nutrition
Pharmaceuticals	Animal Health	Medical Nutrition
Consumer Health Products (including cosmetics)	Plant Biotechnology	Functional Foods

Pharmaceutical companies and biotechnology companies are exploring products from natural sources for potential application in these markets, and are aligning with specialty companies with focused research and development expertise. Ceapro's oat-based extracts, products and products in development have application in several of these markets, including cosmetics and personal care, dermal care, animal care, human and veterinary pharmaceuticals, and functional foods.



Age of Canadian Population in 1996
(total population approximately 30 million)
Source: David K. Foot, "Boom, Bust & Echo"

The demographic trend towards an older, more health-conscious population is expected to increase demand in a number of life sciences industry sectors. The average age of North Americans is increasing, with the "baby boom" generation (those born between 1947 and 1966) now reaching middle age. The oldest baby boomers are turning 50 years old in 1997. Numbering approximately 76 million people in the United States and 10 million people in Canada, representing approximately one-third of the population in North America, baby boomers are focused on prolonging their lives and enhancing their quality of life through a healthier lifestyle. Baby boomers, who represent the largest annual food expenditure, are becoming more health-conscious and affluent and are seeking foods which have the nutritional requirements to suit their changing physiology. Similarly, human skin requirements change with age, creating demand for effective skin care products and sun protection agents. In addition, this demographic group is expected to cause an increase in drug prescription needs. The number of prescriptions in the United States is expected to increase from an estimated 2.4 billion in 1997 to 3.7 billion when the baby boomers begin turning 65 in 2012.

Resulting from these demographic trends is a growing consumer preference for natural products reflecting a more health-conscious population. It is estimated that more than 53 million consumers in the United States are health-conscious, meaning that they act to ensure good health when older and are concerned about nutrition and eating habits. As at April 1997, the global market for nutraceuticals, including all functional foods that impart specific health benefits, is estimated to be $71 billion. The belief that natural ingredients offer safety and mildness and, in certain circumstances, features that are unavailable from other animal-based or chemical ingredients, is causing an increase in demand for natural ingredients in cosmetic and personal care products. Cosmetics retailers that offer natural products have grown to total sales of approximately $1 billion in 1996, up from nearly $500 million in 1994, in the approximately $20 billion cosmetics, fragrance and toiletries market.

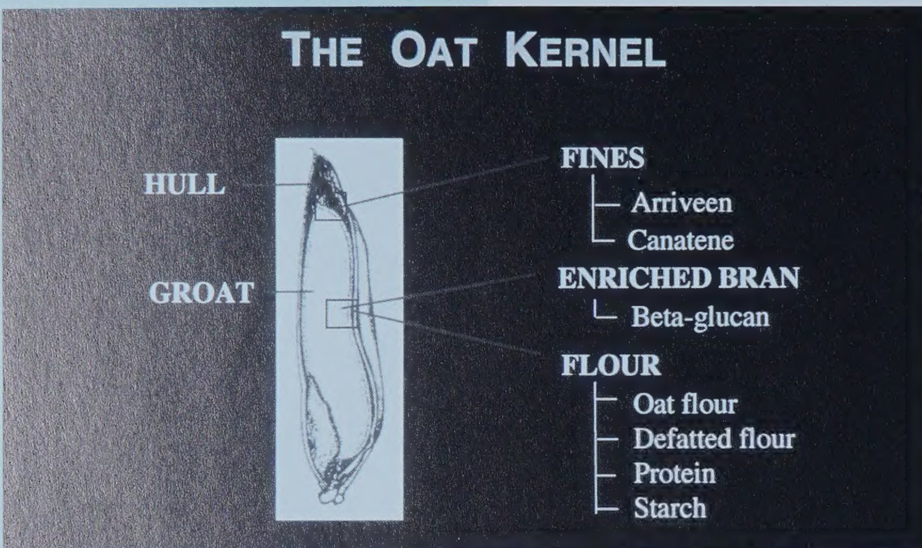
Science and technology play an important role in the acceptance of and demand for natural products in life sciences markets. Technological advances enable the detection, isolation and manipulation of active ingredients and research studies provide the efficacy data to support the health benefits of natural products. The most prominent example to date of a plant-derived drug is Taxol™, the anti-cancer drug produced by Bristol-Myers Squibb Company to treat refractory metastatic breast and ovarian cancer. Taxol™, which is based on a substance extracted from the needles and bark of the Pacific yew tree, generated worldwide sales of approximately $800 million in 1996. In the functional foods sector, a review of 37 scientific studies conducted over 30 years has resulted in the FDA recently approving for the first time a health claim to be made in respect of a food, specifically the heart health benefits of oats.

Oats and Oat Fractionation

Oats are one of the most highly nutritious cereal grains and are a good source of dietary fiber. Fiber can be categorized as either insoluble or soluble fiber. Insoluble fiber is found in whole grains and the outer coating (bran) of wheat, rye, rice and corn and has been found to be important in maintaining intestinal health. Soluble fiber is found in oat bran, legumes and fruits, and has been found to moderate glucose and insulin levels after eating and to reduce elevated plasma cholesterol levels.

Oat bran is particularly high in beta glucan, an important source of soluble fiber. The FDA has concluded that beta glucan is the primary component of oats responsible for the reduction of cholesterol levels resulting from a well-balanced diet low in saturated fat and cholesterol, and containing an appropriate amount of oats. In addition, beta glucan has immune stimulant and wound healing properties.

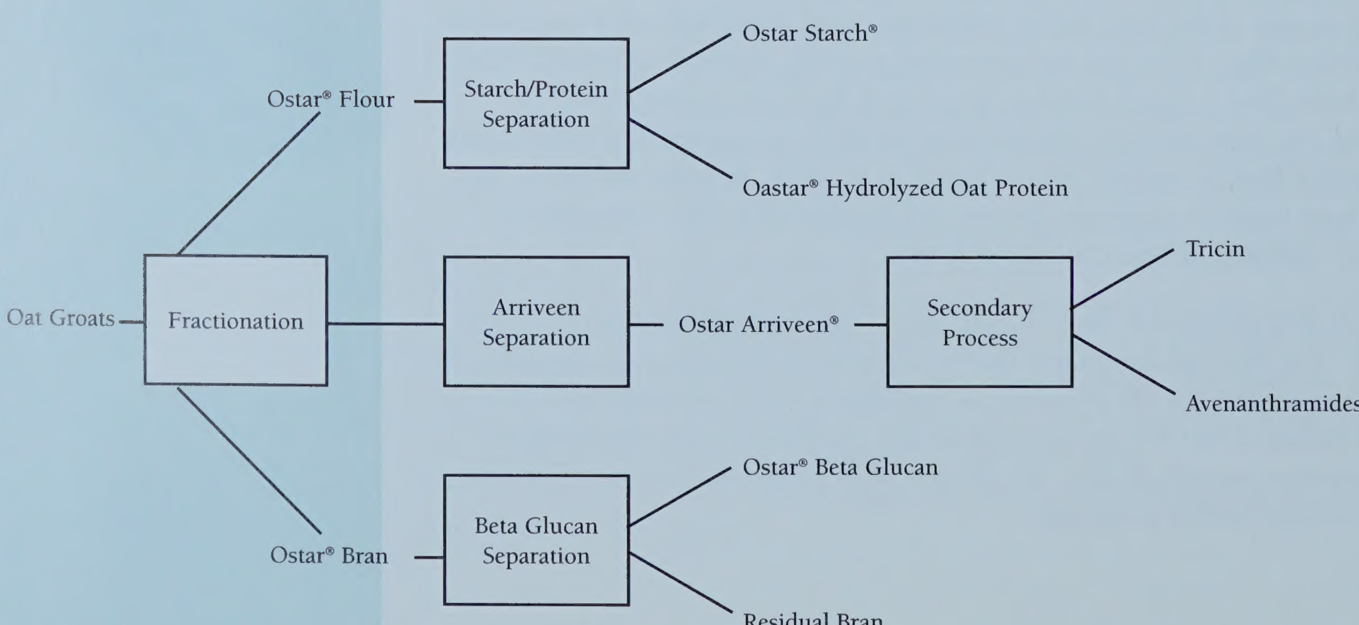
Major Oat Extracts



The diagram above shows the major extracts that can be isolated through the fractionation of oats.

Oat fractionation has historically been limited to the separation of oat bran and oat flour using a dry-milling process. Oat fractionation through the wet-milling of oats was initially developed by Agriculture and Agri-Food Canada in the mid-1980s to enhance the potential value of oats. This patented process uses ethanol to separate oat groats into substantially pure flour and bran. This high fiber bran contains 16-20% beta glucan, as compared to typical dry-milled commercial concentrations of 6-9%. The purity of the bran and flour facilitates the extraction of other components of oats such as oat beta glucan, starch and protein. Ceapro has sub-licensed the exclusive rights to the wet-milling oat fractionation technology from Nuvotech Ventures International Inc. (NVI), which holds the original license of the technology from Agriculture and Agri-Food Canada. Ceapro has made a number of process enhancements to the patented fractionation technology and is developing a further purification system. This secondary processing system can be used to isolate a group of secondary biopharmaceutical extracts, for example Tricin and Avenanthramides, which are found in small concentrations in oats and may have significant pharmaceutical properties.

The following diagram outlines the overall process flow and major products associated with the oat fractionation technology:



Ceapro uses the oat fractionation process to produce natural extracts with applications in the life sciences industry, including the consumer health products, pharmaceutical and functional food markets. Due to regulatory requirements, Ceapro's fractionation plant operates using methanol, a denaturant, in the wet-milling process. As a result, the fractionation plant is not currently capable of producing certain extracts for use in food products. Ceapro is currently completing regulatory requirements for the use of an alternative denaturant which will enable it to produce limited quantities of food grade extracts for product development and efficacy testing purposes. As market opportunities develop, Ceapro intends to take steps to allow it to produce commercial volumes of its extracts for use in food products. Ceapro's extracts include:

Ostar® Bran:

This extract is used in consumer health products as an absorbent to thicken the aqueous portions of lotions, creams and gels. Oat bran is the active ingredient in the functional food products being developed by Ceapro. Ostar® oat bran contains 16-20% beta glucan compared to typical dry-milled commercial concentrations of 6-9%. Oat bran has been clinically proven to have utility in reducing cholesterol and the risk of heart disease and in controlling glycemia in connection with diabetic diets.

Ostar® Starch:

With a small spherical particle and exceptionally purity, Ostar® starch has utility in a number of applications in the dermal care field as a natural substitute for mineral talcum powder and corn starch. Ostar® starch has been introduced in medical examination gloves, bath powders, blush and eye shadow formulations.

Ostar Arriveen®:

This oat extract has the anti-irritant properties that have given oats their historical reputation as a medicinal product. Ostar Arriveen® has been introduced in a variety of consumer health products, such as shampoos and skin creams. In addition, Ostar Arriveen® is the base material for the extraction of the sunblock, Solarriveen™ and for other pharmaceutical extracts.

Ostar® Beta Glucan:

Beta glucan is the primary component responsible for the reduction of cholesterol and risk of heart disease through the regular consumption of oats. Beta glucan has been shown to have immune stimulant and wound healing properties, and is used in a variety of dermal care applications. Ostar® beta glucan is also being used to replace hyaluronic acid in lotions, creams and gels. The unique temperature and viscosity characteristics of oat beta glucan, specifically the reduction of viscosity with increased temperature followed by remarkable thickening upon cooling, gives Ostar® beta glucan potential application as a hydrocolloid thickener in ice cream, sauces and salad dressing.

Ostar® Hydrolyzed Oat Protein:

Ostar® hydrolyzed oat protein has been introduced in shampoos, conditioners, lotions and creams. There is a trend in the cosmetic market to replace hydrolyzed animal protein with natural, botanically sourced extracts. Oat proteins have excellent foaming properties and are high in emulsifying, fat-binding capacities.

Ostar® Flour:

Ostar® flour is being field tested in a variety of cosmetic and animal care products and may have food applications, including as an anti-oxidant in dairy and other foods.

Through the use of the oat fractionation technology, Ceapro isolates and purifies a variety of extracts with specific features and benefits, thereby permitting a significantly higher value to be realized from a given volume of unprocessed oats. The following table compares the value of the extracts yielded from one tonne of oat groats processed through conventional dry-milling and the extracts yielded from one tonne of oat groats processed through Ceapro's fractionation processes. Concurrent fractionation of Ostar® starch/protein, Ostar Arriveen® and Ostar® beta glucan from different separation processes is not currently possible in a single production run at Ceapro's existing fractionation plant. As higher value extracts are isolated, fewer tonnes of oat groats can be processed in a given time. As well, the demand for certain fractions is currently limited by the inability of the existing plant to produce certain extracts for use in food products. Given these limitations of the current production facility, Ceapro is able to realize only a portion of the values indicated at capacity. Ceapro is testing further process modifications which, if successful, will improve productivity, enhance capacity utilization and improve quality.

Value of Product Output
(based on input of one tonne of oat groats)

	Unprocessed	Conventional Dry-Milling	Ceapro Alternative Product Mixes		
	Oat Groats	Conventional Bran	Ostar® Bran	Ostar® Bran	Ostar® Beta Glucan
					Residual Bran
			Ostar Arriveen®	Ostar Arriveen®	Ostar Arriveen®
		Flour	Ostar® Flour	Ostar® Starch	Ostar® Starch
				Ostar® Hydrolyzed Oat Protein	Ostar® Hydrolyzed Oat Protein
Value[1]	$400	$1,900	$4,000[2]	$6,500[3]	$26,000[4]

1. Values in the preceding table are based on Ceapro's pricing in consumer health care markets as at April 30, 1997 and assume the sale of all specified products extracted from one tonne of oat groats. Pricing is variable and may decline from those levels in effect as at April 30, 1997. The Company's ability to realize values in effect from time to time will depend on successful and cost-efficient manufacturing of the products and the Company's ability to successfully market its products in existing and new markets and on the ultimate mix of products sold.
2. The extracts produced by the Ceapro fractionation process are purer than those produced by conventional dry-milling, resulting in a higher value for these extracts.
3. Value is added when further fractionation of Ostar® flour produces Ostar® starch and Ostar® hydrolyzed oat protein.
4. Further value is added upon fractionation of the Ostar® bran into Ostar® beta glucan and residual bran.

Product Divisions

Ceapro has three product divisions, (i) consumer health products, (ii) pharmaceuticals and (iii) functional foods. The consumer health products division is expected to generate the majority of Ceapro's sales and cash flow through the next two years while products in the other divisions are developed and brought to commercialization.

Consumer Health Products

Ceapro's consumer health products division develops products using oat-based extracts for use primarily in the cosmetics and personal care, dermal care and animal care markets. These products contain active extracts that help restore skin integrity to slow the appearance of skin aging, prevent infection and soothe irritation. Ceapro's Ostar® extracts have been introduced in a number of products including soaps, shampoos, lotions, face powders, the powder in a line of medical examination gloves and the soothing extract in a leading brand of baby wipes. Sales in this sector are led by Ostar® starch, Ostar Arriveen® and Ostar® beta glucan.

Ceapro develops new consumer health product applications for its extracts internally and in conjunction with customers who identify a particular product or market need. For example, this cooperative process led to the development of the Ultravena® latex glove product line described below. In addition to product development, the consumer health products division develops strategic licensing and distribution relationships with third parties for both the use of oat-based extracts and the marketing and sale of finished products.

In order to create strong demand for Ceapro's consumer health products, Ceapro's strategy is to develop marketing programs based on the health benefits associated with its oat-based products, supported by efficacy data prepared by independent laboratories.

Cosmetics and Personal Care Products

Ceapro has commenced supplying oat extracts to the U.S. cosmetics and personal care markets for new product introductions and field testing, including Ostar® beta glucan, Ostar Arriveen®, Ostar® starch, Ostar® hydrolyzed oat protein and Ostar® bran. Ostar® extracts have been introduced in eighteen different cosmetic product lines, including cosmetics made by Estee Lauder Inc. and skin creams and lotions made by Chesebrough Ponds USA Co.

Sales of oat extracts are currently based on individual purchase orders and, where appropriate, Ceapro intends to enter into strategic licensing agreements for specific product applications and markets. Ceapro entered into a strategic agreement in 1995 with Estee Lauder Inc. pursuant to which Estee Lauder Inc. patented the use of Ostar Arriveen® as a sun block, Ostar® Solarriveen™. Ceapro has a license to manufacture, sell and use ingredients claimed in Estee Lauder Inc.'s patent and to use the phrase "sun screens containing plant extracts" in exchange for a nominal royalty payable to Estee Lauder Inc. In addition, Ceapro has agreed to supply Estee Lauder Inc. with Ostar® Solarriveen™ for use in cosmetics on a purchase order basis.

Ceapro is positioning itself to grow with the industry trend toward the use of natural extracts to replace chemical and animal-based materials. The Company has a sales and support office in New York and regional sales personnel or contract agents in major markets in the United States. Ceapro is assessing and intends to initiate sales activity in the cosmetics sector in Europe and Japan.

Dermal Care

Ceapro sells a variety of oat extracts for use in dermal care applications such as skin recovery, skin protection and patient comfort. The FDA has recognized colloidal oatmeal (meeting specified minimum requirements for beta glucan, fat and protein content) as a safe and effective skin protectant. The use of oats in dermal care applications is also recommended by the American Medical Association. Colloidal oatmeal baths are recommended for the treatment of itchy, irritated skin due to a variety of skin conditions, including rashes, eczema, psoriasis, diaper rash, chicken pox and sunburn. The American Medical Association Drug Evaluations Committee further supports the use of oatmeal baths for pruritus accompanying acute dermatitis and extensive exanthematous lesions.

Ceapro formulates dermal care products, most often in collaboration with customers. Ceapro's oat extracts are used in antimicrobial washes, moisture retaining and bacteria protective lotions, powders for use with latex gloves and critical care lotions which reduce redness and irritation and retain moisture.

Ceapro entered into a licensing agreement with Ultravena Industries U.S.A. Ltd. (Ultravena) as of February 29, 1996 pursuant to which Ultravena was granted exclusive worldwide rights to market and license products using formulations which incorporate Ostar® oat starch, Ostar Arriveen® and Ostar® beta glucan for specific use in latex gloves, soaps and hand creams, as well as the right to use the Ostar® registered trade-mark. Pursuant to the licensing agreement, a 3% royalty is payable to Ceapro based on Ultravena's gross profit on sales of products incorporating Ostar® extracts. Ceapro supplies oat-based formulations to Ultravena for use in these products on a purchase order basis.

Ceapro entered into a licensing agreement with Brennen Medical, Inc. (Brennen) as of May 16, 1994 granting Brennen the exclusive right to use formulations incorporating Ostar® beta glucan in the development of burn treatment products for hospital and clinic use. Under the agreement, Brennen agreed to buy oat beta glucan exclusively from Ceapro for the next five years. Brennen has recently introduced a burn dressing in the U.S. market which incorporates Ostar® formulations pursuant to section 510(k) of the United States Food, Drug and Cosmetic Act.

Ceapro is currently developing a lotion that was initially intended to become a replacement for calamine lotion. This product has been found to have broader application given its natural anti-irritant and moisturizing properties which are based on the therapeutic activity of Ostar Arriveen® and Ostar® beta glucan. This lotion is also being investigated for its effectiveness against a variety of other skin disorders. Independent efficacy testing by a contract research organization will begin in the second quarter of 1997 to study the lotion's redness reduction and anti-irritant properties.

Ceapro is also in final discussions with two additional companies in respect of licensing agreements for other chronic care dermal products.

Animal Care

Ceapro's consumer products division is currently in the initial stage of marketing a line of premium animal care products in Japan and is expecting to launch this product line in the third quarter of 1997. Ceapro is also currently evaluating partnering arrangements with a view to launching this product line in North America later this year. These products are formulated using Ostar® extracts and are designed to combat skin disease and the discomfort of itching and irritation in dogs, horses and other animals, and may prevent damage to the skin and prevent bacterial infection.

Dr. Redmond's Coat Wash™ is a soap-free canine shampoo which permits retention of natural skin oils and moisture while relieving dry, itchy and scaling skin. It is formulated using Ostar® hydrolyzed oat protein, Ostar® beta glucan and Ostar Arriveen®. The product has been extensively tested by Ceapro at the University of Saskatchewan. A related therapeutic product formulated to relieve itching and pruritus will enter clinical trials in mid-1997. Equine Elite™ Ostar® Wash is a quality cleansing and anti-irritant shampoo for horses. This product is presently undergoing final market testing. Regulatory notifications for the marketing of these products have been filed with the Health Protection Branch of Health Canada (HPB).

Ceapro has entered into a distribution agreement with Daisen Sangyo Company Ltd. (Daisen) as of June 1, 1996 pursuant to which Daisen was appointed exclusive wholesale distributor in Japan for the distribution of Dr. Redmond's Coat Wash™ and Equine Elite™ Ostar® Wash. These products are expected to be launched in the third quarter of 1997. Daisen has committed to purchase a minimum of U.S. $2,000,000 of animal care products during the year following the first shipment of product under this agreement, with minimum purchase requirements increasing by U.S. $660,000 for each subsequent year during the five year term of the agreement. The first shipment is planned for mid-1997. Ceapro has also agreed that Daisen will act as its agent in Japan for the distribution of other animal care products. Daisen is engaged in manufacturing and supplying packaging materials to the pharmaceutical and cosmetics industries, designing and supplying medical laboratory equipment and supplies, and the import and distribution of high value products in several industry sectors throughout Japan. Concurrently with entering into this distribution agreement, Daisen and two of its senior officers purchased a significant number of shares in the Corporation in 1996.

Ceapro has two additional animal care products in development with the University of Saskatchewan, an equine dermal balm and a canine humectant. The equine dermal balm contains anti-irritants and has been developed to moisturize, soften and condition the skin and the hooves. The equine dermal balm has been tested by veterinarians at various Alberta facilities and at

facilities in the United States. Regulatory notification for the marketing of this product has been filed with the HPB. Ceapro intends to launch this product in North America during the next year. A therapeutic version of this product for wound healing will enter clinical trials in 1997. The canine humectant is a moisturizer and conditioner to be used after and between shampoos. This product is in the advanced stages of development with regulatory filings expected to be made in the last quarter of 1997.

Pharmaceuticals
Human Pharmaceutical Products

Ceapro's pharmaceutical division is developing a number of oat-based pharmaceutical extracts and finished products. Oats, and in particular oat beta glucan, have been well documented as having desirable pharmaceutical properties, including the ability to reduce blood cholesterol levels, moderate post-meal glucose levels in the blood and stimulate the immune system.

A significant market opportunity for Ceapro is the development of a family of products relating to the screening, diagnosis and monitoring of diabetes mellitus (diabetes) Type II. Diabetes is a widespread illness that afflicts approximately one out of every 20 people in North America. Diabetes manifests itself in several forms. Type I diabetes (juvenile or insulin-dependent diabetes) appears early in life and necessitates daily insulin injections. Type II diabetes is characterized by the inability of the body to metabolize carbohydrates, which causes an abnormal increase in blood glucose. Type II diabetes (mature-onset or non-insulin dependent diabetes) usually develops in middle-age and generally can be moderated through diet and oral medication, although approximately 25% of individuals having Type II diabetes require daily insulin injections. Approximately 70% of all diabetics are Type II. The predisposition for Type II diabetes may be indicated by impaired glucose tolerance, the first indication of which is elevated levels of blood glucose after a meal. Another form of diabetes is gestational diabetes, which develops during pregnancy and usually concludes following delivery. Up to 5% of expectant mothers experience gestational diabetes, which may have potentially adverse consequences to the fetus if left untreated, and which is associated with increased risk of development of Type II diabetes by the mother later in life.

The long term complications of Type II diabetes can be extremely serious. Type II diabetes is the leading cause of adult blindness, kidney disease and non-traumatic amputation and one of the most important risk factors for coronary heart disease. Diabetes and diabetes related illnesses in North America represent a direct and indirect cost of $120 billion per year, including medical expenses as well as lost productivity and premature death. Given the general aging of the population, by the year 2004, it is estimated that one in four North Americans will have diabetes or impaired glucose tolerance.

There are approximately 15 million Type II diabetics in the United States and an estimated one half of these individuals are currently undiagnosed, in part because the current screening processes for diabetes are inadequate. Another 21 million Americans have impaired glucose tolerance, of which half will go on to develop Type II diabetes. At present, diabetes screening and detection is usually based on a fasting blood glucose test. If initial test results are in the normal range, no further tests are done. If initial test results or physical symptoms indicate diabetic potential, a further test, the oral glucose tolerance test may be undertaken. The oral glucose tolerance test involves overnight fasting, followed by the ingestion of a liquid glucose drink and the measurement of blood glucose levels. A fasting glucose test may not identify diabetic glucose levels which may arise after a meal. The average Type II diabetic would have had impaired glucose tolerance or diabetes for approximately 10 years prior to diagnosis. The lag in detection is due in part to the reliance on the fasting glucose test as a screening method. The consequences of inaccurate diagnosis are significant, as many of the long term complications of Type II diabetes develop in the early years of the disease.

The Diabetic Screening Product (DSP) is being developed by Ceapro for the early detection of Type II diabetes. The DSP is an oat-based product containing precise and calibrated levels of carbohydrate, fat and protein, representing a standardized meal. In-house clinical testing indicates that the digestion of the DSP more closely mimics the physiological responses associated with the metabolism of a normal meal than the oral glucose tolerance test. The recent pivotal trial of the DSP indicates that the DSP provides significantly more accurate test results than the oral glucose tolerance test in persons with impaired glucose tolerance. The DSP will make it possible to evaluate the benefits of early detection of Type II diabetes and intervention which has not been possible using conventional screening methods.

The Company believes these characteristics of the DSP will make it useful for testing impaired glucose tolerance and screening for Type II diabetes. The DSP may also be used as a standardized meal to allow diabetics to monitor post-meal diabetic responses at home and may be useful in connection with the diagnosis of gestational diabetes. Ceapro currently has patents pending in Canada, the United States and internationally in respect of the DSP.

The pivotal trial for application of the DSP as a screening product was conducted in collaboration with five university hospitals across Canada, and was completed in December 1996. Ceapro is preparing to submit the DSP to the HPB and to the FDA for 510(k) regulatory approval and, if required, will carry out further clinical trials in accordance with regulatory requirements. Ceapro intends to seek a strategic alliance to market and sell the DSP. Management is currently targeting strategic partners and discussions have been commenced in some cases.

In connection with the development of the DSP and other diabetes-related products, Ceapro has established an expert panel composed of specialists in the field of diabetes. The primary mandate of the expert panel is to assess the quality of the research projects and programs carried out by Ceapro in this area. The members of the expert panel are as follows:

Dr. Jean Louis Chiasson, M.D., Professor of Medicine, University of Montreal; Director, Research Group on Diabetes and Metabolic Regulation.

Dr. Maureen Harris, Ph.D., Director of the National Institutes of Diabetes Data Group, Health and Diabetes and Digestive and Kidney Diseases, Bethesda, Maryland.

Dr. Rury Holman, F.R.C.P, Honourary Consulting Physician, Diabetes Research Laboratories, Radcliffe Infirmary, Oxford, England.

Dr. F.Q. Nuttall, M.D., Ph.D., Professor of Medicine, University of Minnesota; Chief of Metabolics, Department of Veteran Affairs Medical Centre, Minneapolis, Minnesota.

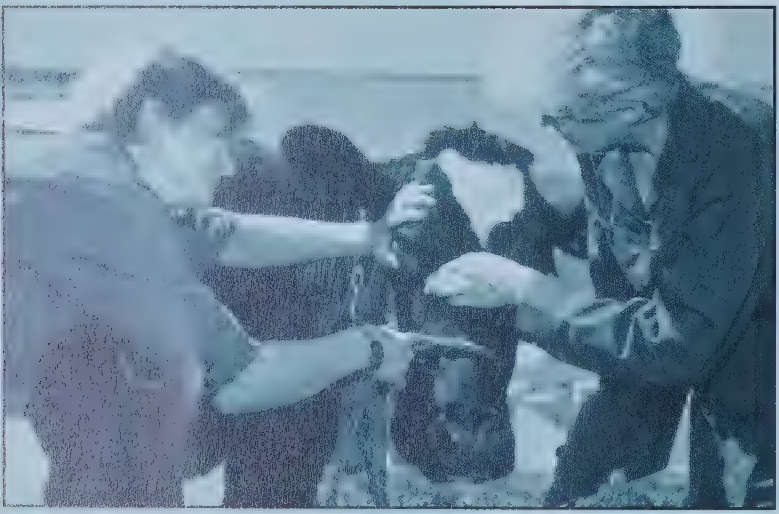
Lipsorex®, a patented topical liquid gel formulated to alleviate the symptoms of cold sores (herpes simplex type I infections), is currently being sold in major pharmacies in Canada. This product is a non-oat-based product which was licensed by Vexco prior to its amalgamation with Ceapro. Lipsorex® has been approved by the HPB and the FDA and was introduced to a test market in late 1995 and launched across Canada in late 1996. Lipsorex® is manufactured by a contract manufacturer and distributed in Canada through an external product management company.

Another non-oat based technology under investigation by Ceapro's pharmaceutical division is immune response factors or cytokines. These cytokines appear to stimulate the production of antibodies and may be useful in restoring immune function in elderly and immuno-compromised patients. This research was initiated by Vexco, and is being continued by Ceapro with the University of Ottawa and the Ottawa Civic Hospital under the terms of a joint research project entered into in October 1994. The intellectual property rights which may result from this project will be jointly held by Ceapro and the University of Ottawa.

Improvements in the patented fractionation technology have also allowed Ceapro and Agriculture and Agri-Food Canada scientists to extract other potential pharmaceutical compounds from oats. Compounds extracted and characterized to date include avenanthramides and tricin. Avenanthramides and tricin are complex compounds found only in oats that are being studied for pharmaceutical activity including anti-oxidant, anti-inflammatory and anti-tumor responses.

Veterinary Pharmaceutical Products

Ceapro is developing a number of products and treatments designed to enhance animal health and performance. A series of mastitis treatments for use in the dairy industry are at various stages of development. These products include a teat dip, udder balm and injectable therapeutic product. Mastitis is an inflammation of the mammary gland most commonly caused by bacteria entering the teat canal. It is caused by a wide range of bacteria, the multiple strains of which make prevention and control difficult. Mastitis affects productivity levels by reducing a cow's milk yield. As well, milk from mastitic animals is of poor quality and, if the animal is being treated with antibiotics, cannot be used for human consumption. Milk and dairy product losses due to mastitis in the United States are estimated at $2 billion annually. There are approximately 5 million dairy cattle in North America and the Company believes that the demand for a natural treatment to replace or reduce the current dependency on antibiotics presents a significant market opportunity for Ceapro.



Studies have demonstrated the efficacy of post-milking teat-dips or sanitizers in reducing new mammary infections. Ostar® extracts with potential utility in teat-dips include Ostar Arriveen® as an anti-irritant to reduce chapping, Ostar® beta glucan as an emollient and immune stimulant, and saponins from oats and quinoa as natural anti-microbial compounds and transdermal immune stimulants. The use of natural oat-based products, ordinarily consumed by humans, rather than antibiotics in the treatment of mastitis may allow animals removed from milk production for treatment to be returned to production sooner. The Company intends to commence field trials on the teat-dip in the summer of 1997.

Ceapro is also developing a wound healing balm for the treatment of cuts and scratches on the udder and teats based on the wound-healing and anti-irritant properties exhibited by Ostar® beta glucan and Ostar Arriveen®. This product is in the early stages of development.

In conjunction with North American and European dermatologists and veterinary surgeons, Ceapro is developing new surgical dressings and treatments based on the immune stimulation properties of Ostar® beta glucan and the anti-irritant properties of Ostar Arriveen®. Ceapro intends to commence in-house clinical testing of these products this year. Ceapro is also conducting research on treatments based on Ostar® beta glucan and saponins extracted from oats and quinoa to act as immune system stimulants that help fight infection and disease in animals and as a potential adjuvant for use with vaccines. Any products resulting from this research will require full clinical testing and regulatory approval as pharmaceutical products.

Functional Foods

Functional foods are foods which confer a specific medical or health benefit. Ceapro's functional foods division is developing a family of products originally based on the high beta glucan Ostar® bran. Ceapro's Ostar® bran contains 16-20% beta glucan compared to typical dry-milled commercial concentrations of 6-9%.

Ceapro intends to develop functional foods to capitalize on the market opportunity associated with the trend towards healthy eating and the emerging regulatory framework for food specific health claims. The FDA recently approved the use in the United States of health claims on food labels referring to the association between soluble fiber from oats, as part of a diet low in saturated fat and cholesterol, and a reduced risk of heart disease. This is the first food specific health claim permitted by the FDA. Japan is recognized as the leader in the development of a regulatory environment for functional foods. In Japan, the Ministry of Health allows health claims to be made in connection with foods for specified health use (FOSHU), being foods which have been proven to have specific health benefits in addition to nutritional value. To date, this designation has been used 78 times on products ranging from frozen yogurt (containing the functional component lactosucrose) to frankfurter sausage (containing the functional component indigestible dextrin). Although health claims are not yet permitted on food labels in Canada, Ceapro is participating in an advisory committee initiated by Health Canada to study the establishment of a regulatory framework which would permit food specific health claims. Health claims associated with Ceapro's functional food products will be subject to regulatory approval in countries allowing such claims. Ceapro intends to seek approval for its products in Japan and the United States.

Ceapro has developed modified Japanese udon and soba noodles containing high levels of beta glucan. The Company has begun preliminary discussions with potential partners to participate in final product development and efficacy testing to support functional food claims where current regulations permit.

Ceapro has also developed a non-dairy based yogurt substitute made from oat bran and having the texture, taste and appearance of yogurt. This product is low in fat, high in fiber and contains no lactose. The Company is currently assessing market opportunities for this product.

Ceapro, in collaboration with the University of Toronto and University of Alberta, is developing prototype functional foods for diabetics, including bread, pasta and snacks. When ingested with a meal, foods containing appropriate levels of oat beta glucan have been shown to moderate the increase in blood glucose (hyperglycemia) after eating. The importance of dietary fiber in preventing and controlling Type II diabetes has been confirmed in a prospective study contained in the February 12, 1997 issue of the

Journal of the American Medical Association entitled "Dietary Fiber, Glycemic Load, and Risk for Non-insulin-dependent Diabetes Mellitus in Women". This study reported the results of a dietary survey of 65,000 female nurses over six years. Women with both a low fiber intake and high glycemic load (consumption of food whose carbohydrate content can be easily converted into blood glucose) were 2.5 times more likely to develop diabetes than those with high fiber intake and low glycemic load. Ceapro intends to seek partners to further develop this product line.

Oat Extract Production and Manufacturing

Ceapro operates a fractionation plant in Saskatoon, Saskatchewan which, in April 1996, commenced pre-commercial production of oat extracts for initial introduction and field testing in a variety of consumer health products. This facility was originally constructed to validate and optimize the fractionation process and to produce extracts for use in the cosmetics market. The land on which the facility is located is held pursuant to a long term lease and the facility is subject to a fixed charge in favour of a Canadian chartered bank pursuant to a debenture dated September 7, 1994. A 5,000 square foot warehouse and ancillary process facility is leased by the Company in a Saskatoon industrial park and supports the main facility.

Ceapro's oat fractionation facility has enabled numerous process improvements and the discovery of new extracts. This facility is capable of processing up to 15,000 tonnes of oat groats per year, depending on the extracts produced. Over the past five months, the plant has processed an average of 171 tonnes of oat groats per month. Ceapro is conducting tests on process modifications to improve productivity, enhance capacity utilization and improve quality.

As market opportunities develop for Ceapro's oat extracts, production capacity must be increased to efficiently respond to increased demand. Ceapro is testing process modifications to improve productivity, enhance capacity utilization, and improve product quality. Successfully tested process improvements may be implemented at Ceapro's existing fractionation facility, In addition, if sufficient demand develops for its products at sufficient margins, Ceapro intends to construct a new facility which will further increase capacity, permit economies of scale and improve production efficiencies by enabling it to run fractionation processes in respect of Ostar® starch/protein, Ostar Arriveen® and Ostar® beta glucan simultaneously, which is not possible at the current facility. Preliminary engineering studies have been completed on a proposed new integrated fractionation plant capable of processing approximately 50,000 tonnes of oat groats annually. Based on

the preliminary engineering studies, the cost of such a facility is estimated to be $75 million.

Due to regulatory requirements, Ceapro's fractionation plant operates using methanol, a denaturant, in the wet-milling process. The presence of trace amounts of methanol in cosmetics and personal care products is not a health concern; however, the fractionation plant is not currently capable of producing certain extracts for use in food products. Ceapro is currently completing regulatory requirements for the use of an alternative denaturant which will enable it to produce limited quantities of food grade extracts for product development and efficacy testing purposes. As market opportunities develop, Ceapro intends to take steps to allow it to produce commercial volumes of its extracts for use in food products

Ceapro also utilizes contract manufacturers where appropriate. Currently the DSP, Lipsorex® and Dr. Redmond's Animal Coat Wash™ are manufactured by contract manufacturers.

Research and Development

The Company performs basic and clinical research, both internally and through arrangements with external institutions and organizations that provide access to specific expertise. Ceapro employs as staff or consultants 15 scientists, two physicians, one veterinarian and four engineers, having a broad range of expertise in areas including biochemistry, chemistry, diabetes, endocrinology, food science, immunology, infectious diseases, medicine, sensory evaluation, and veterinary medicine. In addition to this in-house expertise, collaborative research arrangements with external partners form an integral part of the Company's approach to developing technology and products.

The Company carries out research at its facilities in Saskatoon, Ottawa and New York. The POS Pilot Plant Corporation (POS) pilot plant (a contract research facility) and the Canamino facility in Saskatoon are used to develop process improvements. The Ottawa facility consists of 4,000 square feet of laboratory and office space equipped for basic research and formulation activities. The Company also has a facility at Long Island, New York, which includes a customer support laboratory for the development of custom formulae.

The origins of much of the Company's technology are Canadian universities and government laboratories. This has given the Company an ongoing relationship with experts in the fields of cereal chemistry, biochemistry, immunology, dermatology, and diabetes. Although coordinated with outside experts, Ceapro takes an active role in managing collaborative projects.

The Company has contracted the services of specialist contract clinical research organizations to evaluate products in development.

These controlled studies conform to the requirements of the FDA and HPB, and involve the use of statistically appropriate numbers of subjects. The requirements of regulatory agencies are defined in terms of fully controlled, randomized clinical trials.

An expert panel of scientists has been established in respect of the development of the Company's diabetic products and the Company intends to establish similar panels for its functional food, veterinary and consumer health products.

Intellectual Property

With technology and innovation as central elements of its strategy, Ceapro devotes considerable effort to protecting its core technology and product formulations. Ceapro has sub-licensed the exclusive rights to the wet-milling oat fractionation technology from NVI pursuant to an amended and restated agreement between Canamino and NVI dated January 1, 1997. NVI, a subsidiary of POS established to commercialize technology developed by or in conjunction with POS, holds the master license of the technology from Agriculture and Agri-Food Canada. Patents have been issued to Agriculture and Agri-Food Canada in respect of the fractionation technology in each of Canada and the United States.

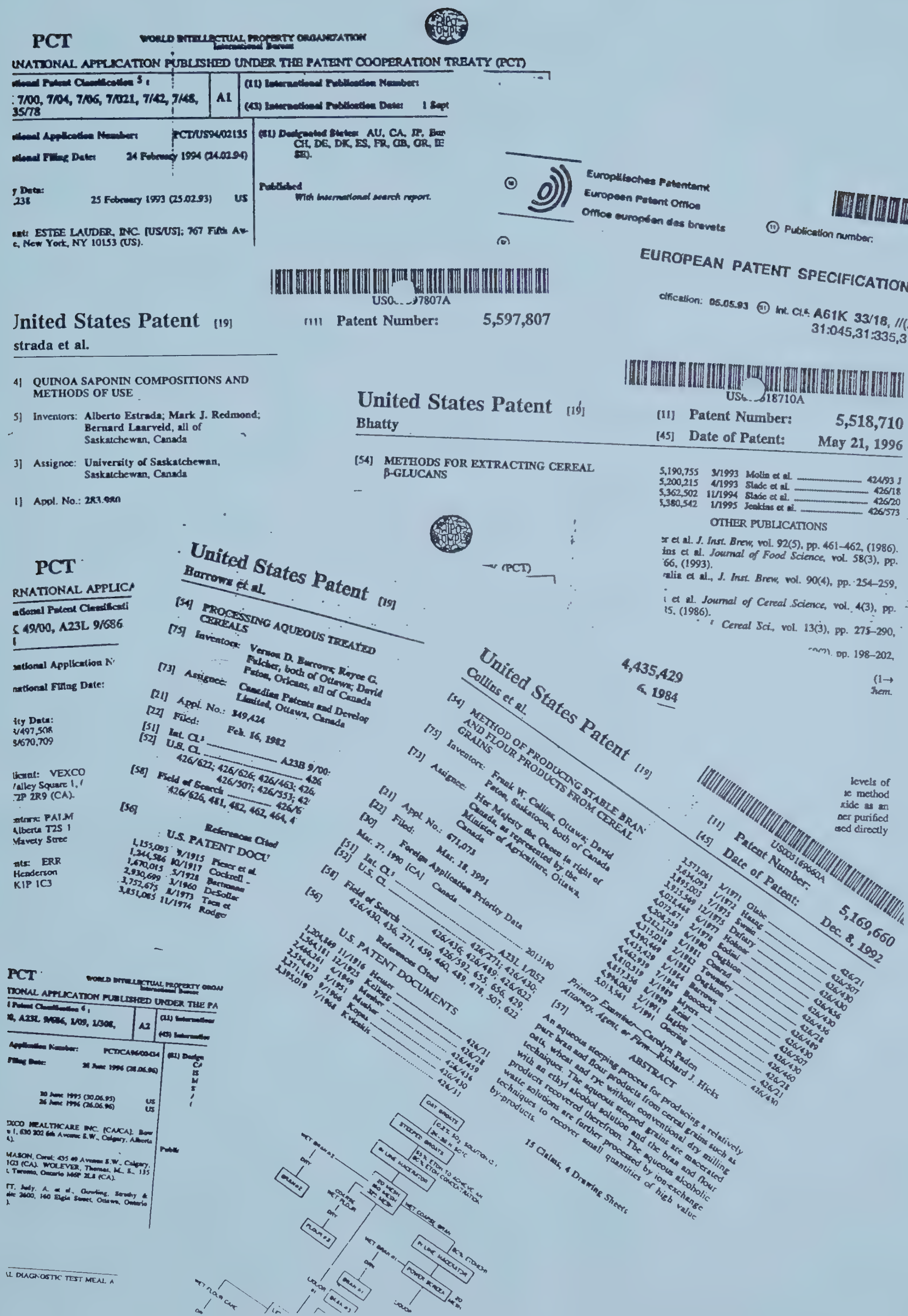
Ceapro expects that its strategy to continuously improve the fractionation technology will lead to opportunities to develop additional fractionation processes and product uses which may be capable of being patented.

Pursuant to an agreement between Ceapro and Agricoll Research Investments Inc. (Agricoll), a company associated with the University of Saskatchewan, dated July 1, 1995, Agricoll sub-licensed to Ceapro the technology under certain patents relating to the cereal beta glucan extraction process and the extraction and use of immune stimulants from quinoa.

In addition to protection of its core technology, Ceapro also has rights to patents issued to third parties in respect of the following technology: processing aqueous treated cereals, cereal beta glucan production, quinoa saponins and methods of use as immune stimulants, and topical treatment of skin. Ceapro currently has Canadian, United States and international patents pending in respect of a solid oral diagnostic test meal, and methods of use and in respect of quinoa saponins and methods of use in drug delivery.

Alberta Wheat Pool Oat Supply Agreement

Ceapro intends to develop and enhance the patented fractionation process in part through the utilization of new varieties of oats, the characteristics of which can be selected depending on the fractions required. Ceapro is actively working with Agriculture and Agri-Food Canada and the Alberta



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United States Patent [19]
Estrada et al.
[11] Patent Number: 5,597,807
[54] QUINOA SAPONIN COMPOSITIONS AND METHODS OF USE
[75] Inventors: Alberto Estrada; Mark J. Redmond; Bernard Laarveld, all of Saskatchewan, Canada
[73] Assignee: University of Saskatchewan, Saskatchewan, Canada
United States Patent [19]
Bhatty
[11] Patent Number: 5,518,710
[45] Date of Patent: May 21, 1996
[54] METHODS FOR EXTRACTING CEREAL β-GLUCANS
OTHER PUBLICATIONS
United States Patent [19]
Burrows et al.
[54] PROCESSING AQUEOUS TREATED CEREALS
[75] Inventors: Vernon D. Burrows; Royce G. Fulcher, both of Ottawa; David Paton, Orleans, all of Canada
[73] Assignee: Canadian Patents and Development Limited, Ottawa, Canada
[22] Filed: Feb. 16, 1982
References Cited
U.S. PATENT DOCUMENTS
United States Patent [19]
Collins et al.
[54] METHOD OF PRODUCING STABLE BRAN AND FLOUR PRODUCTS FROM CEREAL GRAINS
[75] Inventors: Frank W. Collins, Ottawa; David Paton, Saskatoon, both of Canada
[73] Assignee: Her Majesty the Queen in right of Canada, as represented by the Minister of Agriculture, Ottawa, Canada
[22] Filed: Mar. 18, 1991
Foreign Application Priority Data
References Cited
U.S. PATENT DOCUMENTS
[11] Patent Number: 5,169,660
[45] Date of Patent: Dec. 8, 1992
Primary Examiner—Carolyn Paden
Attorney, Agent, or Firm—Richard J. Hicks
[57] ABSTRACT
An aqueous steeping process for producing a relatively pure bran and flour products from cereal grains such as oats, wheat and rye without conventional dry milling technique. The aqueous steeped grains are macerated with an ethyl alcohol solution and the bran and flour products recovered therefrom. The aqueous alcoholic waste solutions are further processed by ion-exchange techniques to recover small quantities of high value by-products.
15 Claims, 4 Drawing Sheets
4,435,429
PCT
INTERNATIONAL APPLICATION PUBLISHED UNDER THE PATENT COOPERATION TREATY (PCT)
PCT/CA96/00434
DIAGNOSTIC TEST MEAL

Wheat Pool to identify varieties of oats and other grains which are weather resistant and yield larger quantities of desirable extracts being separated through the fractionation process. The Alberta Wheat Pool is a farmer-owned cooperative that handles and markets grain, specialty crops, seeds and oil seeds in domestic and international markets, and provides western Canadian farmers with fully integrated grain handling, marketing and agri-business services.

Effective January 31, 1997, Ceapro and the Alberta Wheat Pool entered into an agreement creating a strategic alliance between the parties. Pursuant to this agreement the Alberta Wheat Pool guarantees the supply of oats to Ceapro and has agreed to work with Ceapro and Agriculture and Agri-Food Canada to supply oat varieties which increase the yield and value of outputs from the fractionation process. The Company believes that this strategic alliance will allow it to focus on the continuing development of the fractionation technology and new products, while gaining the benefits of a guaranteed source of supply and assistance in the development of new oat varieties. Concurrently with entering into the supply agreement, the Alberta Wheat Pool made a $4.0 million equity investment in Ceapro.

Employees

On April 30, 1997, including employees of Canamino, the Company had 53 employees in the areas of consumer health products, pharmaceuticals, functional foods, production, research and development, and finance and administration. Ceapro's employees are not represented by any collective bargaining organization, and Ceapro has never experienced a work stoppage.

HISTORY OF THE COMPANY

Arrangement

Ceapro is the corporation resulting from the amalgamation of Developments and Vexco pursuant to a plan of arrangement under the ABCA effective January 1, 1997. Pursuant to the arrangement, holders of common shares of Developments received one Common Share for each two common shares of Developments held by them, holders of common shares of Vexco received one Common Share for each four and one-half common shares of Vexco held by them, and all of the common shares of Vexco held by Developments were cancelled. Identical exchange ratios were applied to holders of options to acquire common shares of Developments and holders of options and warrants to acquire common shares of Vexco at the time of the arrangement. In connection with the amalgamation, the Company issued 4,595,785 additional Common Shares. The Lipsorex® product and the DSP are products brought into the Company through the amalgamation with Vexco.

Vexco Healthcare Inc.

Vexco, a predecessor corporation of Ceapro, was incorporated under the ABCA on May 12, 1987. On July 10, 1987, Vexco made an initial public offering of 1,500,000 common shares under the junior capital pool rules and regulations of the Alberta Securities Commission and The Alberta Stock Exchange (ASE). The common shares of Vexco were listed and posted for trading on the ASE on November 18, 1987. Vexco completed its Major Transaction, as required by ASE Circular No. 7, on September 29, 1988 by acquiring an exclusive sub-license to formulate, develop and use Lipsorex®, Acsorex, Gensorex and Ex-Riasis.

Ceapro Developments Inc.

Developments, also a predecessor corporation of Ceapro, resulted from the amalgamation of Ceapro Developments Inc. and Alberta Multi-Ventures Ltd. (AMV) under the name Ceapro Developments Inc. on July 1, 1995.

AMV was formed in 1991 to pursue the development of new agricultural processing operations in western Canada. AMV undertook a venture in 1993 with the founding shareholders of Canamino to finance the construction of a fractionation plant for the purpose of proving and optimizing the commercial application of the oat-based technology licensed to Canamino. In connection with this transaction, AMV acquired 51% of Canamino's common shares for $1,000,000 and a commitment to provide or arrange all further financing required. As a result of this venture, construction of Ceapro's existing oat fractionation plant began in 1993. Between July 1, 1995 and December 31, 1996, Ceapro invested $9,620,000 in Canamino, increasing its total investment in Canamino to $11,509,000 and resulting in Ceapro holding 83% of Canamino's common shares. On February 27, 1997, Ceapro acquired the remaining outstanding common shares held by the minority shareholders in Canamino (representing approximately 17% of the issued common shares) in exchange for an aggregate of 676,651 Common Shares. Ceapro now owns all of the issued and outstanding common shares of Canamino.

Developments was incorporated specifically to evaluate potential market applications of the oat-based technology in sectors other than the cosmetics industry. Of particular interest were applications in the human and animal healthcare sectors. In July 1995, Developments became a major shareholder in Vexco by acquiring approximately 50% of Vexco's common shares for cash consideration of $150,000. On January 1, 1997, Developments amalgamated with Vexco pursuant to the arrangement described above.

Effective July 1, 1995, Developments entered into an agreement with Agricoll (a Saskatchewan corporation owned by the University of Saskatchewan) to

NUTRITION FOR THE NINETIES

Cosmetics supplier reaps rewards

Sowing oats: From powders to potions, Canamino Inc. is rapidly becoming tops in its field.

BIOTECHNOLOGY

To most of us, oats are little more than an addition to some cereals or food for horses. But for one company, they mean big business.

Canamino Inc. is one of a growing number of companies that have taken the term "value-added" to new heights. Working primarily with oats, it has developed a multi-million dollar business that offers almost exclusively to the cosmetics industry.

The company's facility on Antares Drive in Nepean is purely dedicated to basic research, product development and quality control says Dr. Han. He supervises five scientists from the Ottawa area who work closely with clients to develop new formulations before they are sent for manufacturing.

"You have a unique product, but you have to prove that your product is actually effective, so the research and development have to support that," says Dr. Han. "That's why we emphasize that aspect of the business."

New tool to fight diabetes being developed

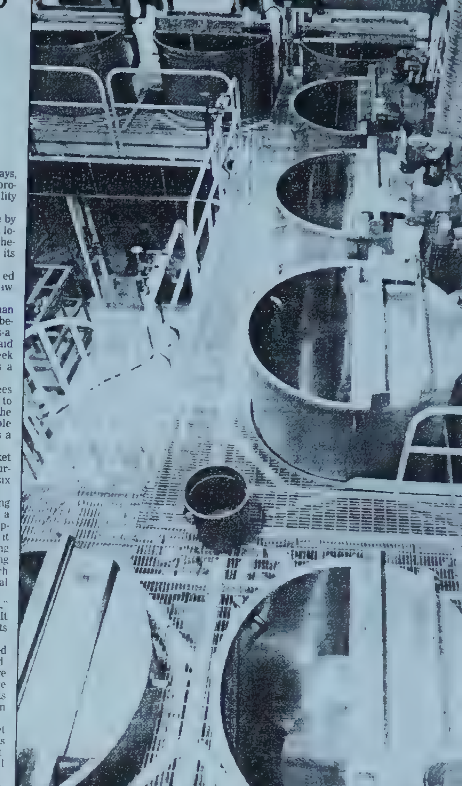
THERE ARE CURRENTLY 10 MILLION North Americans that have been diagnosed with diabetes.

Canamino prepares to fire up facility

By Ken Juba
of The StarPhoenix

After more than a year of delays, Canamino is expecting to begin production at its oat processing facility in Saskatoon next week.

Canamino will mill oats for use by the cosmetics industry. The plant, located on the University of Saskatchewan campus, is the only one of its



Drug firms joining forces

Vexco, Ceapro to develop product for diagnosing diabetes

By Anne Crawford

Carol Palmason expect profits of more than $5 million with new diagnosis product.

DIGEST

Ceapro shares start trading

Ceapro Inc shares started trading Friday on the Alberta Stock Exchange. Ceapro Inc was created as a merger of Ceapro Developments Inc and Vexco Healthcare Inc, effective Dec 31, 1996. Shares of the merged companies are being converted to shares in Ceapro Inc. The company plans "to bring to market a number of new products utilizing fractions as their ingredients," states a release, issued Friday.

CEAPRO INC
NATURE ENHANCING LIFE

CZO-ALBERTA STOCK EXCHANGE

Ceapro is an integrated developer producer and supplier of natural health and functional food ingredients and products derived from grains and plants through the use of the Company's innovative proprietary fractionation technology.

New biotechnology firm focuses on animal health

The Minerva Animal Health Corporation has unveiled its first products — Dr. Redmond's Animal Coat Wash and Dr. Redmond's Soothing Oat Balm — in a line being developed to improve animal health. Eventually, the company will develop natural feed supplements and injectable medicines to help with the growth and breeding of animals.

The company has three employees, although president Mark Redmond said that could grow to 12 with a few years.

"Present marketing agreements should generate millions of dollars," he said. "We're expecting further revenue in the tens of millions."

The company's initial success, however, is being slowed by equipment delays which have prevented Canamino, another local biotech company from reaching full production in the processing of oat ingredients and Minerva's inability to find a local company to bottle the elixirs.

Redmond said the company considered running its own manufacturing operations but would prefer to sub contract that bottling process.

"Our business is developing the re-

biotech company has healthy respect for folk medicine

By Colleen Munro
Western Producer staff

Canamino feeling its oats

By Joanne Paulson

Ceapro, AWP sign agreement

Edmonton-based Ceapro Inc. has entered a strategic alliance with the Alberta Wheat Pool. Ceapro will buy all of its oats through an exclusive 10-year supply agreement with the wheat pool.

The pool will invest $4 million in Ceapro common shares with an option to invest a further $2 million in the next year. Ceapro operates a plant in Saskatoon through its subsidiary Canamino Inc. to process oats.

Ceapro is a biotechnology company researching and developing natural health products for the international cosmetic and animal health industries, as well as for foods and human pharmaceutical sectors.

Oats processors eye lucrative Japanese market

By D'Arce McMillan
Saskatoon newsroom

Oat processor Ceapro Inc. hopes to fill a niche in the Japanese food market with oat-based food products

OSAKA, Japan — Few farmers think about pet shampoo when they look at their oats crop, but a shiny coat for Bowser will be the end result of some of this year's harvest.

Already used in products

Biotech firm secures oats' future

■ Breaking down the oat into its basic components is expected to be big business for Canamino and its parent company, Ceapro

Oats pass health test

U.S. agency labels oat-based products as heart-healthy

MARLENE HABIB
The Canadian Press

Toronto

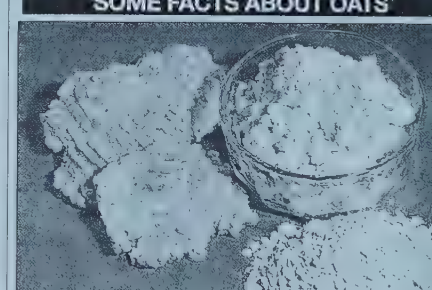
The healthy stick-to-the-gut properties of oats are making food headlines again.

The U.S. Food and Drug Administration recently gave manufacturers the go-ahead to advertise oat products as heart-healthy, consumed in certain daily amounts and as part of a low-fat diet. Only products with three grams or less of fat per serving qualify.

It marks the first time the regulator is backing a specific food claim that it fights a medical condition, in this case heart disease.

"Diet is a powerful tool in the fight against heart disease," Dr. Thomas Wolever of the University of Toronto's department of nutritional said in an interview.

SOME FACTS ABOUT OATS



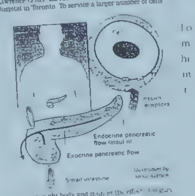
Biotech firm expanding

Vexco Healthcare plans to merge with Edmonton company Ceapro

Calgary-based Vexco Healthcare Inc. announced plans to merge with Ceapro Developments Inc of Edmonton

Middle Kingdom

When sugar makes your body turn sour



Merged firms feeling their oats about developing new products

BRYANT AVERY
Journal Business Writer

Edmonton

Old folklore about oats is meeting new science in a business growing in Edmonton.

Shareholders of Ceapro Developments voted unanimously Thursday in Edmonton to amalgamate with Vexco Healthcare Inc. of Calgary. The Vexco shareholders vote today. The resulting firm would be called Ceapro Inc.

Both firms are studying ways to break down oats and make products from the derivatives. There are three paths of study:

■ Skin cream. Certain properties of oats moisturize skin and reduce irritations.

"We believe it enhances healing of skin," said Ceapro president Bob Binnendyk. The company has already signed a contract with a U.S. firm to use the anti-irritant derivative in manufacture of latex gloves.

In a second deal, Kimberly Clark, maker of Huggies diapers, will use an oats product in an anti-rash liquid or powder.

■ Animal products. Another use of oat derivatives is as a coat wash for dogs, cats and horses, a direction first developed in Saskatoon and later taken over by Ceapro.

■ Pharmaceutical use. Under the direction of Carol Palmason of Vexco, work is under way to use an ingredient of oat starch in a diabetes diagnostic product.

High-tech uses for humble oats

Asian contract leads way to firm's expansion

By JERRY WARD

Japanese deal penned for oat shampoo

By DAN HEALING
Business Editor

A chance introduction during Edmonton Klondike Days last year has paid off in a multimillion dollar partnership, an Edmonton company said yesterday.

Minerva Animal Health Corp. announced it has signed an exclusive animal shampoo distributorship contract with Daisen San Co. Ltd. of Osaka, Japan.

Daisen expects to sell at least $2.6 million worth of product in Japan in the first year.

"It just happened that this company was ready to take this product and market it at this time."

The products initially Oat Shampoo, Equine Elite Shampoo and Dr. Redmond's Animal Coat Wash - will thus be sold in Japan before their North American launch this fall.

They were developed at the University of Saskatchewan and are based on proprietary formulas using protein and other ingredients extracted from oats.

Minerva was founded in 1993 and sold to Edmonton based holding company Ceapro Developments Inc. last year.

Pilip said the sales contract will have little immediate impact in Edmonton.

Ingredients will come from Ceapro sister company Canamino Inc of Saskatoon and will be mixed in Edmonton.

The formulas will then be shipped in drums to Ontario to be bottled in packaging provided by Daisen.

"Our company is Edmonton based but we don't have the infrastructure available here. So we're going to have to outsource it for right now."

He said the Japanese distributor, which is also a packaging firm has hinted at benefits later on.

"I think it's their understanding as the business grows, they're going to look at putting a packaging facility in Alberta."

Ceapro employs about 50 people, with half at the Saskatoon extraction plant.

Ceapro also controls human pharmaceuticals company Vexco Healthcare Inc, which is publicly traded on the Alberta Stock Exchange.

in Feed Offer Eggs, Better Chicken Health

the nutritional evaluation division of Health Canada, said from Ottawa.

There are also worries that by singling out oats

foods a day with at least four to of these servings coming from a grain product such as oats. Recommended daily level of fibre both soluble and insoluble — is to 35 grams.

■ Add oat bran and other forms of fibre slowly to the diet. Too much too soon could result in gas and indigestion. Drink plenty of water.

"My naturopath are best for babies because they

acquire 80% of Minerva Animal Health Corporation's (Minerva) common shares for cash consideration of $200,000. Effective November 1, 1996, Developments purchased the remaining 20% of Minerva's outstanding common shares in exchange for the issuance of 200,000 Common Shares. Minerva was wound up into Developments effective December 23, 1996. Minerva had focused on research and development of animal health care products. These activities are now being carried on by Ceapro.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Ceapro has completed a number of investments and acquisitions in order to strengthen its core oat fractionation technology platform and to broaden its pipeline of products in development. These investments and acquisitions have resulted in a number of changes in the accounting treatment reflected in the Company's consolidated financial statements. In particular:

(i) Developments' interest in Canamino was accounted for on an equity basis until October 11, 1996 and on a consolidated basis thereafter.

(ii) Developments' interest in Vexco was accounted for on an equity basis until December 31, 1996. On January 1, 1997, Developments amalgamated with Vexco. In connection with the amalgamation, the Company changed its fiscal year end from June 30 to December 31. The six month period ended December 31, 1996 reflects this change in fiscal year end.

(iii) Developments' interest in Minerva has been reported on a consolidated basis since July 1, 1995. Minerva was wound up into Developments on December 23, 1996.

As a result of these transactions and the resulting restructuring of Ceapro, management believes the pro forma consolidated financial statements of Ceapro for the six month period ended December 31, 1996 most accurately reflect the financial position and operations of the Company immediately preceding the commencement of Ceapro's 1997 fiscal year. The December 31, 1996 consolidated financial statements, although prepared in accordance with generally accepted accounting principles, do not give effect to a number of significant transactions, including the amalgamation with Vexco on January 1, 1997, which transpired after December 31, 1996 and which will affect the Company's results in 1997.

	Ceapro	Ceapro Developments Inc.			
	Pro forma Six Months ended December 31, 1996	Six Months ended December 31, 1996	Six Months ended December 31, 1995	Year ended June 30, 1996	Year ended June 30, 1995
	(unaudited)	(audited)	(unaudited)	(audited)	(audited)
Income Statement Data:					
Sales	$ 1,396,857	$ 559,543	$ —	$ —	$ —
Gross margin	353,064	42,877	—	—	—
General & Administrative	2,501,357	1,622,622	201,934	1,526,527	164,800
Net loss	4,171,089	3,694,994	1,939,809	5,487,425	1,480,996
Net loss per share	(0.29)	(0.20)	(0.21)	(0.52)	(0.22)

	Pro forma at December 31, 1996	At December 31, 1996	At December 31, 1995	At June 30, 1996	At June 30, 1995
	(unaudited)	(audited)	(unaudited)	(audited)	(audited)
Balance Sheet Data:					
Capital assets	$ 8,306,757	$ 8,265,710	$ 4,687	$ 86,116	$ 4,905
Patents, licenses and other intangibles	28,656,872	6,023,218	248,786	350,271	—
Total assets	44,989,456	18,570,894	1,879,481	4,382,155	1,250,350
Long term debt	4,678,359	4,678,359	148,500	148,500	98,500
Class B preferred shares of subsidiary	3,000,000	3,000,000	—	—	—
Total liabilities	10,873,909	10,603,327	2,932,879	1,951,051	2,131,526
Shareholders' equity (deficiency)	34,115,547	7,967,567	(1,053,398)	2,431,104	(881,176)

Consolidated six months ended December 31, 1996 compared to Pro Forma Consolidated six months ended December 31, 1996

Accounting Treatment

During the six months ended December 31, 1996, Ceapro increased its investment in Canamino to 83%, but only gained voting control of Canamino on October 11, 1996. Accordingly, Canamino's activities were accounted for on an equity basis from July 1 to October 11, and on a consolidated basis from October 12 to December 31. Vexco continued to be accounted for on an equity basis for the entire period.

The pro forma consolidated statements reflect the amalgamation with Vexco and consolidation of Canamino as of July 1, 1996.

Sales and Gross Margin

Sales for the six month period ended December 31, 1996 amounted to approximately $560,000, with a gross margin of $43,000, based on Ceapro's consolidated sales at Canamino from October 12, 1996. On a pro forma consolidated basis, sales amounted to approximately $1,397,000 with a gross margin of $353,000, reflecting the entire period's activity at Canamino.

Canamino commenced pre-commercial production at its oat fractionation facility in April 1996, and sold Ostar® oat extracts to various customers for new product introductions and field testing. Short fractionation runs of oat groats were required to meet low initial volume of demand, creating relative inefficiencies in production, and low gross margins. Gross margins improved during the period due to economies of scale, improved efficiencies and varying product mix. There was no other sales activity during that six month period in 1996 on a historical or pro forma consolidated basis.

Expenses

Expenses for the six months ended December 31, 1996 of $2,354,000 consisted mainly of general and administrative expenses of $1,622,000, including salaries of $523,000, legal and audit expenses of $180,000, operating overhead at Canamino of $213,000 from October 12, 1996, office and general expenses of $256,000, travel expenses of $110,000, Board of Directors expenses of $98,000 and settlement of a law suit related to plant construction of $112,000. The remainder of the expenses in the 1996 period consisted of amortization of $309,000, research and development expenses of $270,000 and interest expense and dividends paid on the preferred shares of Canamino of $150,000.

On a pro forma consolidated basis, expenses for the six month period ended December 31, 1996 reflect the consolidation of Canamino and Vexco for the entire period. The higher general and administrative expenses of $2,501,000 include salaries of $745,000 and operating overhead at Canamino of $472,000.

During the six month period ended December 31, 1996, a significant component of the expenses incurred represent non-recurring costs associated with the investments in the subsidiaries and the restructuring activity. Significant expenses were incurred in the form of professional fees relating to the resolution of issues arising from the investment by SGGF in Canamino, and additional audits and Board of Directors meetings required during the period, in connection with the restructuring activity. Non-recurring professional fees of $900,000 in respect of the amalgamation of Vexco were capitalized against the costs of the respective investments.

Net Loss

Ceapro recorded a net loss in the six month period ended December 31, 1996 of $3,695,000, which was represented in part by Ceapro's share of the losses of Canamino and Vexco of $995,000 and $484,000, respectively. The share of the net loss of Canamino reflects activity from July 1 to October 11, and includes sales of $730,000 and gross margin of $225,000. Ceapro's proportionate share of expenses includes: $430,000 in amortization, $216,000 in operating overhead, $200,000 in general and administrative expenses, $279,000 in interest on debt and dividends on the preferred shares of Canamino, and $96,000 in advertising and promotion expenses.

The recorded loss of Vexco reflects Ceapro's proportionate share of activity for the full six months and includes initial sales of Lipsorex® amounting to $50,000 and gross margin of $40,000. The share of the net loss of Vexco includes expenses of $225,000 including general and administration expenses of $55,000, travel and industrial relations expenses of $39,000, and rent and other office expenses of $35,000, $190,000 in advertising and promotion expenses, and $110,000 in research and development expenses.

The increased net loss on a pro forma basis for the six month period over that in the audited consolidated statements arises from the inclusion of all of Canamino's and Vexco's losses for the period.

Consolidated six months ended December 31, 1996 compared to six months ended December 31, 1995

Accounting Treatment

During the period ended December 31, 1995, Ceapro, as a holding company, accounted for its investments in Canamino and Vexco on an equity basis.

Sales and Gross Margin

During the six month period in 1995 there were no sales or gross margin as Ceapro had not commenced commercial production using the fractionation technology.

Expenses

Expenses increased from $482,000 in the six months ended December 31, 1995 to $2,354,000 during the same period in 1996. As with the 1996 period, in the 1995 period the expenses consisted primarily of general and administrative expenses of $202,000 (legal and audit expenses of $115,000 and salary, office and travel expenses of $87,000). The remainder of the expenses in the 1995 period consisted of interest on short term debt of $215,000, and research and development expenses of $65,000.

Net Loss

Ceapro's net loss for the six months ended December 31, 1995 includes Ceapro's proportionate share of the losses in Canamino and Vexco of $1,260,000 and $209,000, respectively, for an aggregate net loss of $1,940,000, compared to a net loss of $3,695,000 for the same period in 1996. During the period ended December 31, 1995, each subsidiary had only nominal sales and their expenses related to salaries, professional fees, interest and financing costs. The loss reflects minimal commercial activities in the subsidiaries.

Consolidated twelve months ended June 30, 1996 compared to twelve months ended June 30, 1995.

Sales and Gross Margin

Ceapro recorded no sales in either of the twelve month periods ended June 30, 1996 and June 30, 1995.

Expenses

Expenses for the 1996 period were $2,041,000 compared to $483,000 in the 1995 period. In the twelve months ended June 30, 1996 the increase in expenses is attributable to the commercialization and the restructuring activities discussed above. Expenses in 1995 consisted of interest on short term obligations of $195,000, research and development expenses of $55,000, the write-off of a loan receivable of $63,000, and general and administrative expenses of $165,000 (audit and legal expenses of $30,000, salaries of $27,000, general office and travel expenses of $73,000, and financing charges of $36,000). Canamino had only nominal sales in this period, and the share of the loss relating to Canamino is primarily interest expenses and administrative expenses (professional fees, salaries and other overhead items).

Net Loss

During the twelve months ended June 30, 1996, Ceapro held equity positions in both Canamino and Vexco and reported its proportionate share of losses of $2,993,000 for Canamino and $593,000 for Vexco on an equity accounting basis. Canamino commenced pre-commercial production in April 1996; however, sales were only at nominal levels and Ceapro had no direct revenue as a holding company. In the 1995 period, Ceapro, as a result of amalgamating with AMV, had a 56% interest in Canamino and had made advances to Vexco in anticipation of taking a 50% interest in that company. The proportionate share of a loss in Canamino of $1,037,000 was reported by Ceapro.

Liquidity and Capital Resources

Ceapro has relied on external financing to fund operating losses and strategic acquisitions. In the six months ended December 31, 1996, Ceapro raised $9,200,000 through the private placement of 3.2 million Common Shares. These funds were used in part to invest in Canamino ($4,500,000) and Vexco ($900,000). Ceapro completed two additional private placements, one in October 1995 of 415,000 Common Shares for gross proceeds of $933,000 and one in September 1996 of 140,000 Common Shares for gross proceeds of $350,000. These funds have provided for continued funding of Canamino's development and operations, development of the DSP and marketing of Lipsorex®, as well as the operations of Ceapro. In January 1997, Ceapro issued Special Warrants to the Alberta Wheat Pool for proceeds of $4,000,000.

Working capital has improved from a deficit of $1,900,000 at June 30, 1995 to a working capital surplus on a pro forma consolidated basis at December 31, 1996 of $2,000,000. The improvement in working capital position is due largely to the proceeds of the sale of the Special Warrants.

Ceapro has been making principal repayments in respect of long term debt. Payments of $75,000 are made monthly towards a balance of approximately $2,500,000 outstanding as at April 30, 1997 to a Canadian chartered bank. In addition, quarterly payments of $120,000 are made towards a balance of approximately $1,800,000 outstanding as at April 30, 1997 to Western Economic Diversification.

Ceapro's general and administrative costs amount to approximately $200,000 per month, comprised largely of salaries and benefits. The Company believes that the conclusion of non-recurring investment and restructuring activities, as well as the elimination of redundancies arising from the acquisitions and restructuring will enable the Company to realize annual cost savings in this area. These savings are, however, expected to be offset by an increase in expenses relating to growth of Ceapro's infrastructure.

Future Considerations

As market opportunities develop for Ceapro's extracts production capacity must be increased to respond efficiently to increased product demand. To increase production capacity, either at the existing facility or by constructing a new integrated fractionation facility, Ceapro will require additional capital. If sufficient demand for product develops, Ceapro intends to construct a new integrated fractionation facility. Preliminary engineering studies prepared by Stanley Engineering Associates have been completed on a proposed new integrated fractionation plant capable of processing approximately 50,000 tonnes of oat groats annually. Based on the preliminary engineering studies, the cost of such a facility is estimated to be $75 million. A financing plan in respect of the costs associated with increasing production capacity is expected to include a combination of debt, subordinated debt and/or a further equity financing. The sources of further financing will be dependent on market conditions and interest rates at the time.

CONSOLIDATED FINANCIAL STATEMENTS
CEAPRO DEVELOPMENTS INC.

December 31, 1996 and June 30, 1996

AUDITORS' REPORT

To the Shareholders of
Ceapro Developments Inc.

We have audited the consolidated balance sheets of Ceapro Developments Inc. as at December 31, 1996 and June 30, 1996 and the consolidated statements of loss and deficit and changes in financial position for the six months ended December 31, 1996 and the year ended June 30, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and June 30, 1996 and the results of its operations and the changes in its financial position for the six months ended December 31, 1996 and the year ended June 30, 1996 in accordance with generally accepted accounting principles.

Ernst & Young

Chartered Accountants

Edmonton, Canada
February 21, 1997

CEAPRO DEVELOPMENTS INC.

CONSOLIDATED BALANCE SHEETS

As at

	December 31, 1996 $	June 30, 1996 $
ASSETS		
Current		
Cash	**1,013,710**	708,382
Accounts receivable	**1,154,929**	233,780
Inventories	**1,099,301**	—
Prepaid expenses	**41,086**	8,431
	3,309,026	950,593
Long-term investments and receivables *[note 5]*	**972,940**	2,995,175
Capital assets *[note 6]*	**8,265,710**	86,116
Patents, licences and other intangibles *[note 7]*	**6,023,218**	350,271
	18,570,894	4,382,155
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 8]*	**1,099,078**	—
Accounts payable and accrued liabilities	**1,501,880**	516,199
Loans and advances payable *[note 9]*	**324,010**	1,274,073
Current portion of long-term debt *[note 10]*	**1,295,438**	—
Current portion of Class B preferred shares of subsidiary *[note 11]*	**1,250,000**	—
	5,470,406	1,790,272
Long-term debt *[note 10]*	**3,382,921**	148,500
Class B preferred shares of subsidiary *[note 11]*	**1,750,000**	—
Non-controlling interest	—	12,279
	10,603,327	1,951,051
Commitments *[note 12]*		
Contingent liabilities *[note 13]*		
Shareholders' equity		
Share capital *[note 14]*	**18,850,155**	9,618,698
Deficit	**(10,882,588)**	(7,187,594)
	7,967,567	2,431,104
	18,570,894	4,382,155

See accompanying notes

On behalf of the Board:

Director

Director

CEAPRO DEVELOPMENTS INC.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

Period ended

	December 31, 1996 $	June 30, 1996 $
	(6 months)	(12 months)
REVENUE		
Sales	**559,543**	—
Cost of goods sold	**516,666**	—
Gross margin	**42,877**	—
EXPENSES		
Advertising, promotion and marketing	**128,116**	58,137
Amortization	**309,540**	3,387
Dividends on Class B preferred shares of subsidiary	**75,807**	—
General and administrative	**1,622,622**	1,526,527
Interest on long-term obligations	**39,099**	—
Interest on short-term obligations	**35,275**	284,139
Research	**143,972**	169,444
	2,354,431	2,041,634
Loss before the following	**(2,311,554)**	(2,041,634)
Other income	**83,411**	102,870
Share of net loss of Canamino Inc.	**(994,773)**	(2,993,291)
Share of net loss of Vexco Healthcare Inc.	**(484,357)**	(593,091)
Loss before non-controlling interest	**(3,707,273)**	(5,525,146)
Non-controlling interest	**12,279**	37,721
Net loss for the period	**(3,694,994)**	(5,487,425)
Deficit, beginning of period, as previously stated	**(6,043,298)**	(1,102,322)
Change in accounting policy *[note 2]*	**(1,144,296)**	(597,847)
Deficit, end of period	**(10,882,588)**	(7,187,594)
Net loss per share	**(0.20)**	(0.52)

See accompanying notes

CEAPRO DEVELOPMENTS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Period ended	December 31, 1996 $ (6 months)	June 30, 1996 $ (12 months)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net loss for the period	**(3,694,994)**	(5,487,425)
Add (deduct) charges to operations not requiring a current cash payment:		
Amortization of capital assets	**243,840**	3,387
Amortization of patents, licences and other intangibles	**65,700**	—
Share of net loss of Canamino Inc.	**994,773**	2,993,291
Share of net loss of Vexco Healthcare Inc.	**484,357**	593,091
Non-controlling interest	**(12,279)**	(37,721)
Other	**(170,501)**	—
	(2,089,104)	(1,935,377)
Net change in non-cash working capital items relating to operations	**204,240**	324,744
	(1,884,864)	(1,610,633)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Investments and receivables:		
Minerva Animal Health Corporation	**(1,137,250)**	(200,000)
Canamino Inc.	**(4,022,732)**	(4,668,709)
Vexco Healthcare Inc.	**(855,262)**	(795,126)
Loan to employee	**(250,000)**	—
Increase in capital assets	**(191,678)**	(84,598)
Increase in patents, licences and other intangibles	**(97,673)**	(134,356)
	(6,554,595)	(5,882,789)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Decrease in loans and advances payable	**(1,210,236)**	(595,427)
Decrease in long-term debt	**(125,512)**	—
Redemption of Class B preferred shares of subsidiary	**(250,000)**	—
Share capital	**9,231,457**	8,799,705
	7,645,709	8,204,278
Increase (decrease) in cash during the period	**(793,750)**	710,856
Cash, net of (bank indebtedness), beginning of period	**708,382**	(2,474)
(Bank indebtedness), net of cash, end of period	**(85,368)**	708,382
Operating cash flow per share	**(0.10)**	(0.15)

See accompanying notes

CEAPRO DEVELOPMENTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996 and June 30, 1996

1. ORGANIZATION

Ceapro Developments Inc. ("the Company") is incorporated under the Business Corporations Act of Alberta. The Company's primary business activities relate to the development of various innovative life sciences products and processes relating to oat fractionation technology.

Development stage enterprise

The Company is a development stage enterprise and its ability to successfully realize the carrying value of its assets is dependent upon its ability to arrange and maintain sufficient financing to successfully complete its development activities, commence commercial operations and to attain positive cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of Ceapro Developments Inc. and its 83% owned subsidiary Canamino Inc. (see note 4).

The Company's 47% interest in Vexco Healthcare Inc. has been accounted for by the equity method. (see note 5).

Change in fiscal year end

The Company has changed its fiscal year end from June 30 to December 31 effective December 31, 1996, as a result of the amalgamation, on January 1, 1997, with Vexco Healthcare Inc. (see note 17).

Change in accounting policy

In accordance with revised recommendations of The Canadian Institute of Chartered Accountants, the Company has changed its accounting policy for the Class B preferred shares issued by Canamino (see notes 4 and 11). Prior to the adoption of the new recommendations, debt and equity instruments were accounted for as liabilities or equity in accordance with their legal form. Such instruments are now accounted for as liabilities if the issuer is contractually required by the terms of the instrument to settle the instrument in cash upon maturity. If there is no such contractual obligation, the instrument is treated as equity. Interest and dividends are charged to earnings or retained earnings according to the balance sheet classification of the related principal amounts.

The Class B preferred shares issued by Canamino Inc., ("Canamino") were previously accounted for by Canamino as equity instruments, and dividends paid on those preferred shares were charged to its retained earnings.

CEAPRO DEVELOPMENTS INC.

These preferred shares are, in all material respects, liabilities and have been retroactively accounted for as such. This has the effect of increasing its net loss, and the Company's equity-accounted portion thereof, for all periods since the issuance of those preferred shares. This change increases the net loss of the Company for the periods ended December 31, 1996 and June 30, 1996 by $144,715 and $546,449 respectively. The accumulated deficit at June 30, 1995 has been increased by $597,847.

Subsequent to October 11, 1996, the Class B preferred share liability has been accounted for by the Company on a consolidated basis (see note 4).

Inventories

Inventory of raw materials is valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis.

Inventory of work in progress and finished goods is valued at the lower of cost and net realizable value with cost being determined using full absorption costing on a first-in, first-out basis.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives as follows:

Building	2.5%	straight-line
Furniture and equipment	20%	declining balance
Computer equipment	20 - 30%	declining balance
Laboratory and production equipment	20%	straight-line
Leasehold improvements	20 - 25%	straight-line

Patents, licences and other intangibles

Patents, licences and other intangibles are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over periods ranging from 10 to 20 years commencing the later of the year the patent is granted, licence acquired or commercial production is achieved. On an ongoing basis, management reviews the valuation and amortization of these assets, taking into consideration any events or circumstances which might have impaired the fair value. Should there be a permanent decline in the value of these assets below their carrying value, the assets would be written down to their estimated recoverable value.

Fair values

The fair value of financial instruments is generally determined as follows:

Accounts receivable, accounts payable and loans and advances payable are all short term in nature and as such, their carrying value approximates fair value.

The fair value of Class B preferred shares was estimated using discounted cash flows based on current rates of interest.

The fair value of bank loans which float with prime is assumed to be equal to their carrying value.

The fair value of non-interest bearing loans and receivables is estimated using discounted cash flows based on current rates of interest for similar lending arrangements.

Unless otherwise disclosed in the notes to the financial statements, the fair value of an instrument approximates its carrying value.

Foreign currency translation

Revenue and expense transactions have been translated to their Canadian dollar equivalent using the average exchange rate for the period.

Current monetary assets and liabilities are translated to their Canadian dollar equivalent at the rates effective at the balance sheet date.

Loss per share

Loss per share is calculated using the monthly weighted average number of shares outstanding during the period. Fully diluted loss per share has not been provided as the effects of the assumed exercise of stock options described in note 14 are anti-dilutive.

Operating cash flow per share

Operating cash flow per share is calculated using the monthly weighted average number of shares outstanding during the period. Operating cash flow is defined as cash provided by (used in) operating activities.

3. ACQUISITION OF MINERVA ANIMAL HEALTH CORPORATION

On July 1, 1995, the Company acquired an 80% interest in Minerva Animal Health Corporation ("Minerva") for cash consideration of $200,000.

On November 1, 1996, the Company acquired the remaining 20% interest in Minerva for consideration of $1,137,250. The consideration was comprised of 364,083 common shares of the Company at $3 per share plus acquisition costs of $45,000.

The excess consideration paid over the fair value of net assets acquired in the amount of $1,078,025 has been attributed to patents, licences and other intangibles.

CEAPRO DEVELOPMENTS INC.

The acquisitions have been accounted for using the purchase method and are summarized as follows:

	$
Total cost of acquisitions	1,337,250
Net assets acquired at fair values	
Working capital	**88,736**
Patents, licences and other intangibles	**1,298,514**
Long-term debt	**(50,000)**
	1,337,250

On December 23, 1996 the operations of Minerva were wound up into the Company.

4. ACQUISITION OF CANAMINO INC.

At December 31, 1996, the Company owned 83% (June 30, 1996 - 70%) of the equity (Class A common shares) of Canamino Inc. ("Canamino").

The Company initially obtained significant influence over Canamino in October 1993 and acquired 51% of its equity on September 30, 1994.

Canamino has also issued a class of preferred, non-voting (Class B) shares (see notes 2 and 11). On issue of the Class B shares, the Class B shareholder was granted an option to acquire 51% of the total voting entitlement attached to the common shares of Canamino, effective under defined conditions including a default in the payment of dividends on the Class B shares. Such a default occurred, and the option became exercisable shortly after September 30, 1994. The option was exercised by the Class B shareholder on September 5, 1995. On October 11, 1996, Canamino remedied the default by remitting the dividend arrears, plus interest and agreed costs, to the Class B shareholder. The Company reestablished voting control of Canamino at that time.

The Company considered it lost effective control over Canamino when the option became exercisable and therefore did not account for its investment on a consolidated basis prior to October 11, 1996. The Company did, however, continue to exercise significant influence over Canamino throughout that period and accordingly accounted for its investment on an equity basis.

During the period May 1993 to October 11, 1996, the Company acquired approximately 79.8% of Canamino for cash consideration of $9,328,715 plus acquisition costs of $195,530.

CEAPRO DEVELOPMENTS INC.

The acquisitions have been accounted for using the purchase method and are summarized as follows:

	$
Total cost of acquisitions	**9,524,245**
Less: losses of Canamino accounted for on an equity basis to October 11, 1996.	**(5,174,021)**
	4,350,224

Net assets acquired at fair values

	$
Working capital	**976,171**
Capital assets	**8,343,571**
Patents, licences and other intangibles	**4,327,417**
Loan payable	**(1,399,147)**
Long-term debt	**(4,655,371)**
Class B preferred shares	**(3,242,417)**
	4,350,224

During the period from October 12, 1996 to December 31, 1996, the Company acquired an additional 3.2% of Canamino for cash consideration of $1,897,491 plus 30,454 common shares of the Company at $3 per share.

The excess consideration paid over the fair value of net assets acquired in the amount of $1,189,454 has been attributed to patents, licences and other intangibles.

Subsequent to December 31, 1996, Ceapro Inc., the successor company to Ceapro Developments Inc., acquired the remaining 17% minority interest of Canamino Inc. on the basis of a share exchange of 671,651 common shares of Ceapro Inc. at an agreed value of $4 per share for 1,343,303 common shares of Canamino Inc.

5. LONG-TERM INVESTMENTS AND RECEIVABLES

	December 31, 1996 $	June 30, 1996 $
Investments		
Canamino Inc. *[note 4]*	—	726,179
Vexco Healthcare Inc. (47%)	**554,940**	352,035
Canaveena Corporation (100% - inactive)	—	100
	554,940	1,078,314
Receivables		
Loan to employee	**250,000**	—
Vexco Healthcare Inc.	**168,000**	—
Canamino Inc. *[note 4]*	—	1,916,861
	418,000	1,916,861
	972,940	2,995,175

Vexco Healthcare Inc. ("Vexco")

In July 1995, the Company and Vexco executed a share acquisition agreement whereby the Company agreed to pay Vexco $150,000 and provide Vexco with access to certain technology in exchange for 16,734,500 common shares of Vexco.

During the year ended June 30, 1996 the Company made non-interest bearing advances of $795,126 to Vexco. These advances were applied by the Company to exercise warrants to acquire 1,686,171 common shares of Vexco.

During the period ended December 31, 1996 the Company made non-interest bearing advances of $168,000 to Vexco.

On January 1, 1997, Vexco and the Company amalgamated to form Ceapro Inc. (see note 17). Costs in the amount of $687,262 incurred to December 31, 1996 with respect to the amalgamation have been added to the carrying value of the Companyís investment in Vexco at that date.

The carrying value of the Companyís investment in Vexco is determined as follows:

	$
Total cost of investment	1,632,388
Less: losses of Vexco accounted for on an equity basis to December 31, 1996	(1,077,448)
	554,940

Loan to employee

The loan to employee is non-interest bearing and must be repaid in full on or before September 1, 2001. The estimated fair value of the loan was $203,835 at December 31, 1996.

6. CAPITAL ASSETS

	December 31, 1996			June 30, 1996
	Cost $	Accumulated Amortization $	Net Book Value $	Net Book Value $
Building	**4,069,180**	**23,222**	**4,045,958**	—
Furniture and equipment	**93,249**	**7,818**	**85,431**	47,607
Computer equipment	**92,373**	**11,721**	**80,652**	38,509
Laboratory and production equipment	**4,025,255**	**196,301**	**3,828,954**	—
Leasehold improvements	**156,897**	**8,682**	**148,215**	—
Capital in progress	**76,500**	—	**76,500**	—
	8,513,454	**247,744**	**8,265,710**	86,116

7. PATENTS, LICENCES AND OTHER INTANGIBLES

	December 31, 1996			June 30, 1996
	Cost $	Accumulated Amortization $	Net Book Value $	Net Book Value $
Patents, licences and other intangibles	**6,088,918**	**65,700**	**6,023,218**	350,271

8. BANK INDEBTEDNESS

The Company has an operating line of credit of $1 million. Amounts advanced under this line of credit are due on demand and bear interest at prime plus 1.25%. Collateral on these advances is detailed in note 10.

9. LOANS AND ADVANCES PAYABLE

	December 31, 1996 $	June 30, 1996 $
Nuvotech Ventures International Inc. unsecured loan due on demand. Interest at Royal Bank prime lending rate plus 2%.	**274,010**	—
Advances from shareholders, unsecured and due on demand. Interest at 10% up to June 30, 1996 and non-interest bearing thereafter.	**50,000**	774,073
D.L.M. Investments Inc. loan due September 4, 1996. Interest at Royal Bank prime lending rate plus 2%.	—	500,000
	324,010	1,274,073

Subsequent to December 31, 1996 the Nuvotech Ventures International Inc. loan was repaid in full.

A general security agreement was provided as collateral for the D.L.M. Investments Inc. (a company owned by a director and shareholder) loan.

Interest paid to D.L.M. Investments Inc. during the six month period ended December 31, 1996 totalled approximately $9,200 (year ended June 30, 1996 - $24,000).

10. LONG-TERM DEBT

	December 31, 1996 $	June 30, 1996 $
Royal Bank loan due May 1999. Repayable in monthly installments of principal and interest of $90,000 commencing March 1997 to February 1998 and $100,000 from March 1998 to May 1999. Interest at the bank's prime rate plus 2%.	2,487,846	—
Royal Bank loan due February 2000. Repayable in monthly installments of $4,300 plus interest at the bank's prime rate plus 1.5%.	155,400	—
Western Economic Diversification loans, due February 1998 and January 2001. Repayable in quarterly instalments of $120,663 to February 1998 and $102,150 from March 1998 to January 2001. The loans are unsecured and interest free for the entire term	1,829,113	—
John A. Shaw Associates Inc. The loan is unsecured, non-interest bearing and has no specified terms of repayment.	57,500	—
Province of Alberta forgivable loan	98,500	98,500
Ag-West Biotech Inc. loan	50,000	50,000
	4,678,359	148,500
Less current portion	1,295,438	—
	3,382,921	148,500

A $5 million fixed and floating charge debenture with a fixed first charge over building and a floating charge over all other assets and a general security agreement with specific charge against larger pieces of equipment have been pledged as collateral on the Royal Bank operating line of credit (see note 8) and Royal Bank loans above.

The Province of Alberta has provided the Company with a $98,500 forgivable loan to conduct a feasibility study with respect to the construction of a large scale oat processing facility in Alberta. The loan must be repaid if the feasibility study proves the facility to be viable but the facility is not built or is built outside Alberta.

The Ag-West Biotech Inc. loan was provided to fund a feasibility/business plan for the Company. The loan is repayable once commercial products are produced and sold and bears interest at prime plus 2% beginning six months after the commencement of commercial production of specific products. If commercial products are not developed the loan is forgivable.

The estimated fair value of the Company's long-term debt at December 31, 1996 is $4,328,625 (June 30, 1996 - $39,685).

The effective interest rate of the Company's long term debt is 6.75% at December 31, 1996.

Principal payments on loans due in the next five years are as follows:

	$
1997	**1,295,438**
1998	**1,562,197**
1999	**1,103,374**
2000	**409,200**
2001	**159,650**
	4,529,859
Province of Alberta and Ag-West Biotech Inc. loans	**148,500**
	4,678,359

11. CLASS B PREFERRED SHARES OF SUBSIDIARY

Canamino is authorized to issue 1,300,000 Class B and 1,300,000 Class C preferred non-voting shares and at December 31, 1996 has 1,200,000 Class B preferred shares outstanding. These shares are now redeemable at the option of the corporation. Minimum redemptions of 500,000 and 700,000 shares are required during 1997 and 1998 at prices per share of $2.75 and $3.00 respectively, plus any cumulative dividends in arrears.

These shares entitle the holders to an 11% cumulative dividend. In addition, the holders may elect to receive an additional variable cumulative dividend set at 25% of the after-tax net profit of the corporation; however, for any fiscal year during which such an election is made, the redemption price per share for that year is reduced to $2.

The shares are convertible to Class A equity shares at a rate of 1:1 if all Class B or Class C shares have not been redeemed by the fifth anniversary of issuance or if any variable cumulative dividends are unpaid.

During the six month period ended December 31, 1996, 100,000 Class B shares were redeemed for cash consideration of $250,000.

The fair value of the Class B preferred shares at December 31, 1996 was $2,546,465.

12. COMMITMENTS

a) The Company has committed to spend approximately $300,000 on research, of which approximately $150,000 had been spent by December 31, 1996.

b) Minimum annual payments required under operating leases for office and warehouse facilities and equipment for the next five years are as follows:

	$
1997	**176,751**
1998	**114,587**
1999	**87,085**
2000	**75,906**
2001	**72,047**

c) Pursuant to a technology licence agreement, the Company has exclusive rights to certain patents and trade secrets. The license expires on the later of the date of expiration of the last remaining patent or 10 years from the date of first commercial sale of the licensed product which is defined as a calendar month with sales greater than $50,000.

As a condition of the grant of the license, the Company shall contract with the University of Saskatchewan, and effect payment for $500,000 of research and development within 5 years of this agreement of which not less than $300,000 must be before May 1, 1998.

d) The Company is committed under a licensing agreement to pay a royalty calculated as the greater of 5% of total net sales billed or following annually:

	$
1997	**75,000**
1998 and thereafter	**100,000**

13. CONTINGENT LIABILITIES

The Company has been named in a lawsuit by a supplier for a total of $439,446 plus interest. The Company has launched a counterclaim and management believes it will be successful in defending against this lawsuit; however such litigation is subject to many uncertainties and the outcome cannot be reasonably estimated. Any amounts incurred by the Company will be recorded as expense when they are determinable.

14. SHARE CAPITAL

	December 31, 1996 Number of shares #	December 31, 1996 Amount $	June 30, 1996 Number of shares #	June 30, 1996 Amount $
Authorized				
Unlimited number of Class A voting common shares				
Unlimited number of Class B non-voting common shares				
Issued - Class A common shares				
Balance, beginning of the period	**14,170,255**	**9,618,698**	8,727,217	818,993
Issued during the period for:				
Cash	**5,321,076**	**7,302,144**	5,168,649	7,714,821
Repayment of debt	**280,000**	**350,000**	—	—
Services rendered	**57,667**	**86,501**	—	—
Acquisitions	**394,537**	**1,183,612**	—	—
Subscribed for but unissued	—	—	274,389	411,584
	6,053,280	**8,922,257**	5,443,038	8,126,405
	20,223,535	**18,540,955**	14,170,255	8,945,398
To be issued	**239,467**	**309,200**	528,867	673,300
Balance, end of the period	**20,463,002**	**18,850,155**	14,699,122	9,618,698

The shares to be issued are in respect of the following:

	December 31, 1996 $	June 30, 1996 $
D.L.M. Investments Inc. - final payment on loan - 280,000 Class A common shares	—	350,000
Director and shareholder - management fee - 200,000 Class A common shares payable January 2, 1997	**250,000**	250,000
Employees in lieu of salary - 8,800 (June 30, 1996 - 48,867) Class A common shares	**13,200**	73,300
Board remuneration for fiscal 1996 - 30,667 Class A common shares	**46,000**	—
	309,200	673,300

The company has established a stock option plan for directors, officers and employees. Stock options have been granted for 2,210,000 Class A common shares (June 30, 1996 - 1,650,000) at an exercise price of $1.50 per share over 4 years.

CEAPRO DEVELOPMENTS INC.

15. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise disclosed in these consolidated financial statements are as follows:

	December 31, 1996 $	June 30, 1996 $
Transactions with directors and shareholders		
Financing charges	—	10,000
Legal fees, rent of equipment, salaries and contract services included in general and administrative expense	**1,365**	364,418
Research	**39,026**	53,376
Transactions with affiliate		
Interest income	**37,410**	99,475

Accounts payable and accrued liabilities includes an amount of $51,867 (June 30, 1996 - $41,538) in respect of the above related party transactions.

16. INCOME TAXES

The Company has accumulated losses carried forward for income tax purposes amounting to $3,255,117 the benefit of which has not been reflected in these financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and must be claimed not later than:

	$
1997	**28,437**
1998	**32,390**
2000	**40,790**
2001	**355,998**
2002	**1,800,158**
2003	**997,344**
	3,255,117

In addition, the Company has net capital losses of $46,902 which can be carried forward indefinitely to offset future taxable capital gains.

To December 31, 1996 the Company has accumulated a scientific research and experimental development expenditure pool of $395,278 which can be carried forward indefinitely to be applied against future income for tax purposes.

17. SUBSEQUENT EVENTS

Plan of arrangement with Vexco Healthcare Inc. ("Vexco")

On January 1, 1997 the Company and Vexco Healthcare Inc. amalgamated to form Ceapro Inc. ("New Ceapro"). The amalgamation was pursuant to a Plan of Arrangement under the Alberta Business Corporations Act and received approval of the shareholders of both companies in December 1996.

The Plan of Arrangement provides that the holders of the common shares of the Company are to receive one common share of New Ceapro for each two common shares of the Company and the holders of common shares of Vexco are to receive one common share of New Ceapro for each four and one-half common shares of Vexco. The 18,420,671 shares of Vexco owned by the Company are to be cancelled.

The above conversion ratios are to also be applied to the holders of options and warrants to acquire common shares of the Company and Vexco.

For accounting purposes, New Ceapro has been identified as the acquirer of Vexco and accordingly, the amalgamation will be accounted for as a purchase.

The cost of the acquisition in the amount of $22,624,075 will be paid by way of issuance of 4,612,452 common shares at $4.905 per share.

Special warrants

On January 31, 1997 New Ceapro issued 800,000 special warrants for cash consideration of $4,000,000. Each special warrant can be exchanged for one common share of New Ceapro. In addition, each warrant has attached to it a 1/2 warrant which can be exercised for common shares at a conversion rate of one full warrant at $5 per share for a period of one year following the day on which a receipt for a prospectus qualifying the distribution of the special warrants is received from the Alberta Securities Commission.

Offering

Subsequent to December 31, 1996, New Ceapro commenced preparation of a prospectus for a common share offering. A proposal has been accepted from an underwriter whereby the underwriter will purchase the common shares being offered subject to a due diligence review of New Ceapro and execution of a definitive underwriting agreement.

CEAPRO INC.

COMPILATION REPORT

To the Directors of
Ceapro Inc.

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of Ceapro Inc. as at December 31, 1996 and the pro forma consolidated statements of loss and deficit and changes in financial position for the six months ended December 31, 1996. These pro forma consolidated financial statements have been prepared for inclusion in the prospectus relating to the sale and issue of common shares. In our opinion, the pro forma consolidated balance sheet and the pro forma consolidated statements of loss and deficit and changes in financial position have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Ernst & Young

Chartered Accountants

Edmonton, Canada
March 10, 1997

CEAPRO INC.

PRO FORMA CONSOLIDATED BALANCE SHEET

As at December 31, 1996

Unaudited - See Compilation Report

	Ceapro Historical $	Vexco Historical $	Adjustments $		New Ceapro Proforma $
ASSETS					
Current					
Cash	1,013,710	133,164	4,000,000	*[note 2(b)]*	5,146,874
Accounts receivable	1,154,929	114,823	—		1,269,752
Inventories	1,099,301	133,813	—		1,233,114
Prepaid expenses and deposit	41,086	85,001	—		126,087
	3,309,026	466,801	4,000,000		7,775,827
Long-term investments and receivables	972,940	—	(722,940)	*[note 2(a)]*	250,000
Capital assets	8,265,710	41,047	—		8,306,757
Patents, licences and other intangibles	6,023,218	188,579	22,374,981	*[note 2(a)]*	28,656,872
			82,373	*[note 2(c)]*	
			(12,279)	*[note 2(d)]*	
	18,570,894	696,427	25,722,135		44,989,456
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Bank indebtedness	1,099,078	—	—		1,099,078
Accounts payable and accrued liabilities	1,501,880	270,582	—		1,772,462
Loans and advances payable	324,010	168,000	(168,000)	*[note 2(a)]*	324,010
Current portion of long-term debt	1,295,438	—	—		1,295,438
Current portion of Class B preferred shares of subsidiary	1,250,000	—	—		1,250,000
	5,470,406	438,582	(168,000)		5,740,988
Long-term debt	3,382,921	—	—		3,382,921
Class B preferred shares of subsidiary	1,750,000	—	—		1,750,000
	10,603,327	438,582	(168,000)		10,873,909
Shareholders' equity					
Share capital	18,850,155	6,124,894	16,499,181	*[note 2(a)]*	45,474,230
			4,000,000	*[note 2(b)]*	
Deficit	(10,882,588)	(5,867,049)	5,320,860	*[note 2(a)]*	(11,358,683)
			82,373	*[note 2(c)]*	
			(12,279)	*[note 2(d)]*	
	7,967,567	257,845	25,890,135		34,115,547
	18,570,894	696,427	25,722,135		44,989,456

CEAPRO INC.

PRO FORMA CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

Six months ended December 31, 1996

Unaudited - See Compilation Report

	Ceapro Historical $	Vexco Historical $	(Note 2) Adjustments $	New Ceapro Proforma $
REVENUE				
Sales	559,543	106,272	731,042	1,396,857
Cost of goods sold	516,666	21,764	505,363	1,043,793
Gross margin	42,877	84,508	225,679	353,064
EXPENSES				
Advertising, promotion and marketing	128,116	404,809	95,776	628,701
Amortization	309,540	7,716	345,529	662,785
Dividends on Class B preferred shares of subsidiary	75,807	—	144,715	220,522
General and administrative	1,622,622	477,339	401,396	2,501,357
Interest on long-term obligations	39,099	—	—	39,099
Interest on short-term obligations	35,275	—	134,143	169,418
Research	143,972	232,458	—	376,430
	2,354,431	1,122,322	1,121,559	4,598,312
Loss before the following	(2,311,554)	(1,037,814)	(895,880)	(4,245,248)
Other income (loss)	83,411	7,268	(16,520)	74,159
Share of net loss of Canamino Inc.	(994,773)	—	994,773	—
Share of net loss of Vexco Healthcare Inc.	(484,357)	—	484,357	—
Loss before non-controlling interest	(3,707,273)	(1,030,546)	566,730	(4,171,089)
Non-controlling interest	12,279	—	(12,279)	—
Net loss for the period	(3,694,994)	(1,030,546)	554,451	(4,171,089)
Deficit, beginning of the period	(7,187,594)	(4,836,503)	4,836,503	(7,187,594)
Deficit, end of the period	(10,882,588)	(5,867,049)	5,390,954	(11,358,683)

CEAPRO INC.

PRO FORMA STATEMENT OF CHANGES IN FINANCIAL POSITION

Six months ended December 31, 1996

Unaudited - See Compilation Report

	Ceapro Historical $	Vexco Historical $	(Note 2) Adjustments $	New Ceapro Proforma $
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net loss for the period	(3,694,994)	(1,030,546)	554,451	(4,171,089)
Add (deduct) charges to operations not requiring a current cash payment:				
Amortization	309,540	7,716	345,529	662,785
Share of net loss of Canamino Inc.	994,773	—	(994,773)	—
Share of net loss of Vexco Healthcare Inc.	484,357	—	(484,357)	—
Non controlling interest	(12,279)	—	12,279	—
Other	(170,501)	—	—	(170,501)
	(2,089,104)	(1,022,830)	(566,871)	(3,678,805)
Net change in non-cash working capital items relating to operations	204,240	55,424	(2,705,845)	(2,446,181)
	(1,884,864)	(967,406)	(3,272,716)	(6,124,986)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES				
Investments and receivables:				
Minerva Animal Health Corporation	(1,137,250)	—	—	(1,137,250)
Canamino Inc.	(4,022,732)	—	3,645,401	(377,331)
Vexco Healthcare Inc.	(855,262)	—	(22,456,075)	(23,311,337)
Loan to employee	(250,000)	—	—	(250,000)
Increase in capital assets	(191,678)	(11,990)	(98,253)	(301,921)
Increase in patents, licenses and other intangibles	(97,673)	(15,214)	(207,281)	(320,168)
	(6,554,595)	(27,204)	(19,116,208)	(25,698,007)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES				
Increase (decrease) in loans and advances payable	(1,210,236)	168,000	37,124	(1,005,112)
Decrease in long-term debt	(125,512)	—	(272,275)	(397,787)
Redemption of Class B preferred shares of subsidiary	(250,000)	—	—	(250,000)
Share capital	9,231,457	94,855	26,624,075	35,950,387
	7,645,709	262,855	26,388,924	34,297,488
Increase (decrease) in cash during the period	(793,750)	(731,755)	4,000,000	2,474,495
Cash, net of (bank indebtedness), beginning of the period	708,382	864,919	—	1,573,301
Cash, net of (bank indebtedness), end of the period	(85,368)	133,164	4,000,000	4,047,796

CEAPRO INC. ("NEW CEAPRO")

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996 Unaudited - See Compilation Report

1. BASIS OF PRESENTATION

These unaudited pro forma consolidated financial statements present:

(a) The arrangement whereby Ceapro and Vexco Healthcare Inc. ("Vexco") amalgamated on January 1, 1997 and continued under the name Ceapro Inc. ("New Ceapro"), as if that amalgamation had occurred on July 1, 1996.

(b) The issuance of 800,000 special warrants for cash consideration of $4,000,000 as if those warrants had been issued and exercised on July 1, 1996.

(c) The reestablishment of voting control of Canamino and the consolidation thereof as if it had occurred on July 1, 1996.

(d) The acquisition by Ceapro Developments Inc. ("Ceapro") of certain additional interests in Minerva Animal Health Corporation ("Minerva") as if those interests had been acquired on July 1, 1996.

The pro forma consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, from the audited consolidated financial statements of Ceapro Developments Inc. and the audited financial statements of Vexco Healthcare Inc. as at December 31, 1996.

In the opinion of management, these pro forma consolidated financial statements include all the adjustments necessary for fair presentation. The pro forma consolidated financial statements are not intended to reflect the financial position, results of operations or changes in financial position of Ceapro Inc. which would have actually resulted had the amalgamation and related transactions and other pro forma adjustments been in effect on the dates indicated. Further, the pro forma consolidated financial statements are not necessarily indicative of the financial position, results of operations or changes in financial position that will be achieved in the future.

These unaudited pro forma consolidated financial statements should be read in conjunction with the financial statements of Ceapro Developments Inc. and Vexco Healthcare Inc. included elsewhere in this prospectus.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The pro forma consolidated financial statements include the following assumptions and adjustments:

(a) The amalgamation with Vexco as if it occurred on July 1, 1996. The key elements of this transaction are as follows:

(i) For accounting purposes, Ceapro has been identified as the acquirer of Vexco and accordingly, the amalgamation has been accounted for as a purchase. The share capital and deficit of Vexco have been eliminated on acquisition.

CEAPRO INC. ("NEW CEAPRO")

(ii) The acquisition of Vexco by Ceapro. These proforma consolidated financial statements reflect a purchase price of $22,624,075 for the 53% of Vexco not already owned by Ceapro. The shareholders of Ceapro received one common share of Ceapro Inc. in return for two common shares of Ceapro. The shareholders of Vexco received one common share of Ceapro Inc. in return for 4.5 common shares of Vexco. In total, 14,843,954 common shares of Ceapro Inc. will be issued. The 47% of Vexco's common shares held by Ceapro on January 1, 1997 were cancelled without any payment or consideration in respect of such shares.

(iii) The excess of consideration paid over the fair value of net assets acquired in the amount of $22,921,170 has been assigned to patents, licences and other intangibles and will be amortized upon commencement of commercial production.

(b) The issuance by New Ceapro of 800,000 special warrants for cash consideration of $4,000,000 effective July 1, 1996.

(c) The consolidation of Canamino effective July 1, 1996. On October 11, 1996, Ceapro reestablished voting control of Canamino. Ceapro had not accounted for its investment in Canamino on a consolidated basis prior to that date as it did not have effective control as a result of the Class B shareholder exercising an option to acquire 51% of the total voting entitlement attached to the common shares.

(d) The consolidation of Minerva as if it were a wholly-owned subsidiary on July 1, 1996. On November 1, 1996, Ceapro acquired the 20% minority interest in Minerva Animal Health Corporation for consideration of $1,137,250.

The excess consideration paid over fair value of net assets acquired paid is determined as follows:

	$
Carrying value of New Ceapro's 47% investment in Vexco at December 31,1996	554,940
Cost of acquisition of remaining 53%	22,624,075
	23,179,015
Net assets acquired:	
Cash	133,164
Working capital	63,055
Capital assets	41,047
Patents, licences and other intangibles	188,579
Advances from Ceapro	(168,000)
	257,845
Excess consideration paid	22,921,170

CORPORATE INFORMATION

Name and Municipality of Residence	Position with Ceapro (and year first elected or appointed)(3)	Principal Occupation
DIRECTORS		
William D. Grace, FCA(1) Edmonton, Alberta	Director and Chairman of the Board (1996)	Corporate Director and Consultant since 1994; prior to March 1994 Managing Partner, PriceWaterhouse (Edmonton) (chartered accountants)
Robert A. Binnendyk Edmonton, Alberta	Director (1996)	President and Chief Executive Officer Ceapro from June 1, 1996; prior thereto, President, Labatt Western Canada (a brewery)
Donald Gainor(2) Salt Spring Island, B.C.	Director (1994)	Retired; prior thereto, Senior Vice President and founder of Gainor Medical, an international medical equipment company, since 1973
Neil W.W. Gilliat(2) Edmonton, Alberta	Director (1995)	Chairman of Ceapro Developments Inc. prior to February 24, 1996; prior thereto, Director, Westcan Malting Ltd. (food processing company), 1990 to 1993
Dr. Dennis L. Modry(1) Edmonton, Alberta	Director (1995)	Director, Heart and Lung Transplantation Program and Cardiovascular Intensive Care Unit; Clinical Associate Professor at the University of Alberta
Robert L. Phillips(2) Edmonton, Alberta	Director (1996)	President & Chief Executive Officer, Dreco Energy Services Ltd. (engineering and manufacturing company) since 1994; prior thereto, partner, Blake, Cassels & Graydon (law firm)
Dr. G. Wayne Schnarr Toronto, Ontario	Director (1997)	Vice-President, BioCatalyst Yorkton Inc. since 1997; Life Sciences Analyst, Yorkton Securities Inc. from 1994 to 1997; President and Chief Operating Officer, Pharma Patch plc from 1993 to 1994; prior thereto, Biotechnology and Pharmaceutical Analyst, Deaco BZW (now BZW Canada)
Dr. Bradley G. Thompson Calgary, Alberta	Director (1997)	President, Chief Executive Officer and Co-founder, SYN-SORB Biotech Inc. since May 1994; prior thereto, Head, Program Development (from April 1994) and Head, Biotechnology Program (from 1990), Alberta Research Council
OFFICERS		
Robert A. Binnendyk Edmonton, Alberta	Director (1996) President and Chief Executive Officer	President & Chief Executive Officer, Ceapro from June 1, 1996; prior thereto, President, Labatt Western Canada (a brewery)
Donald A. MacLean Edmonton, Alberta	Executive Vice-President and Chief Financial Officer (1996)	Executive Vice-President and Chief Financial Officer, Ceapro from October 18, 1996; prior thereto Partner, Coopers & Lybrand (chartered accountants)
Carol A.L. Palmason Calgary, Alberta	Senior Vice-President, Pharmaceuticals (1997)	President, Vexco from June 1994 to December 1996; prior thereto, National and International Clinical Research Project Manager (Metabolics) at Miles Canada Inc., a subsidiary of Bayer A.G. Germany, from May 1986 to February 1994
Douglas M. Clement Edmonton, Alberta	Vice-President, Consumer Health) Products (1995)	Vice-President, Consumer Health Products, Ceapro; prior thereto Executive Vice-President, Business and Technology Development, Edmonton Economic Development
Dr. Karen G. Lapsley Edmonton, Alberta	Vice-President, Functional Foods (1996)	Director, Guelph Foods Research Program to December 1996; prior thereto, Program Chair, Federal Department of Agriculture to November 1995; prior thereto, Acting Program Director, Central Experimental Farm to June 1993
Dr. Mark J. Redmond Edmonton, Alberta	Vice-President, Scientific and Regulatory) Affairs (1996	Founder, President and Chief Executive Officer of Minerva from March 1994 to November 1996; prior thereto, Research Scientist, University of Saskatchewan from July 1988 to July 1993

Notes:
(1) Member, Audit Committee.
(2) Member, Corporate Governance and Compensation Committee.
(3) Dates prior to January 1, 1997 indicate the date of appointment as a director or officer of Developments or Vexco, as the case may be.

AUDITORS

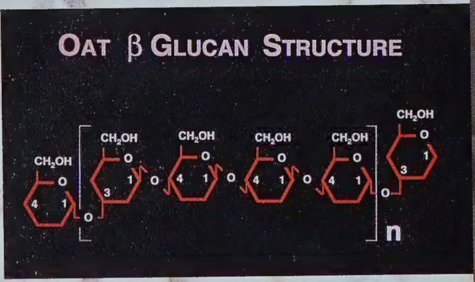
Ernst & Young
1800 Esso Tower
10060 Jasper Avenue
Edmonton, Alberta
T5J 3K8

SHARE REGISTRAR AND TRANSFER AGENTS

Montreal Trust Company of Canada
6th Floor, Western Gas Tower
530 - 8th Avenue S.W.
Calgary, Alberta
T2P 3S8

STOCK LISTING

The Company's common shares are traded on the Alberta Stock Exchange under the trading symbol CZO.



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